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AMERICA AND COMMUNIST CHINA

BY SINICUS

Ever since their coming to power in China the Communists have made America their chief object of attack. This is of course natural. After the last world war the United States has become one of two super-Powers of the world and the only one capable of checking Russian expansionism. As a result the world is divided into two hostile, armed and irreconcilable camps, with the United States heading the one and the Soviet Union heading the other. As the Soviet Union's greatest junior partner, Communist China naturally trains its propagandist artillery upon the United States, the common enemy of all Communist states. This is a matter of ideological solidarity which must be maintained at all costs.

This anti-America campaign has been intensified since the outbreak of the Korean War. It has now reached a crescendo of sound and fury outstripping the Russians in violence and menace of language. In order to understand the Chinese intervention in the Korean War, it behooves us to look closely into the nature of this campaign and the result it hopes to achieve.

The campaign is characterized by mass-meetings, parades, slogans, rousing oratory, flag-waving, as well as by the study of the history of Sino-American relations and of the "crimes" which America has committed and is still committing against China. It is with this latter activity that we are chiefly concerned here.

* * *

The campaign seeks to accomplish the following objectives: to demolish the idea that America has ever been a friend of China, to throw America's claim for democracy out of the window, and to make the Chinese people realize that in the event of China's involvment in a war with the United States there is nothing they should get nervous about. The rulers of New China are determined to squeeze out every remnant of American influence—political, cultural, and economic. Only the Soviet Union is China's friend and only the Soviet Union can help China become a strong and united nation. As one top leader puts it, "The Soviet people love the Chinese with a sincerity which springs from the spirit of internationalism. They help us unconditionally and ask nothing in return." The Soviet Union, moreover, represents the forces of progress while America is the fountain-head of reaction. As the greatest imperialist power the world has ever seen, America aims at nothing less than the complete enslavement of mankind through such nefarious devices as the Marshall Plan, the North Atlantic Pact, Point Four Plan, and so on. The history of Sino-American relations is one continuous series of political and economic aggressions under the guise of friendship. When facts fail to support their allegations they fall back upon theory. America is imperialist because she is capitalist. For, according to Marxist-Leninist teachings, imperialism is the last stage of capitalism. Let us quote from the Communist propaganda directive recently issued by the Party as guide to study and discussions:

> Chinese workers, peasants, petty bourgeoisie, national bourgeoisie, and other patriotic elements of the country! You must all know America and understand America. In the past you were deluded by

> the imperialists into believing that we must depend on America as our good friend. Many mistook America for a most civilized and democratic nation from whom we have much to learn. There are also those who were awe-struck by America's military might and believed that no nation in the world could afford to incur the displeasure of this powerful country.
>
> In fact, all pro-America thinking is reactionary; to revere America and to fear America is dangerous. After having arrived at a proper understanding of America, all patriotic Chinese should hate, despise, and defy America.

This is a most extraordinary piece of preachment. This is a gospel of hate. America should be hated the Communists declare, because she has committed and is still committing innumerable acts of aggression against the Chinese people. The patrolling of the U.S. Seventh Fleet in Formosan waters, the bombings of Manchurian towns, the intention to invade China from North Korea, American aid to Chiang Kai-shek, American rearmament of Japan with the objective of attacking the Soviet Union and Communist China, the encirclement of the Soviet Union and China from military and naval bases in the Pacific, the refusal on the part of the United States to seat the rightful representatives of China in the United Nations—these and others are cited as concrete instances of aggression which America is committing. Among the historic "crimes" the following are alleged:

> 1. America was among the first to introduce opium into China, and the first to establish extraterritorial rights under the Treaty of Wanghsia in 1844.
>
> 2. America extorted from China the right to navigate Chinese inland rivers, to propagate the Christian faith, and to control the Chinese maritime customs under the Treaty of Tientsin in 1858.
>
> 3. In 1862 the American Consul-General in Shanghai directed an American soldier of fortune, F. T. Ward, to organize the so-called Ever Victorious Army to suppress the Taiping Rebellion—the forerunner of the Chinese Revolution.
>
> 4. From 1872 to 1874 American armed forces, in cooperation with the Japanese, made repeated invasions of Formosa.
>
> 5. In 1900 American troops participated in the attack on Peking and extracted from the Manchu government special rights and privileges.
>
> 6. The Lansing-Ishii Agreement of 1917 recognized Japan's special interests in China.
>
> 7. From 1922 to 1924 America supplied the warlord Tso Kun with arms to start a civil war.
>
> 8. On May 30, 1925 Americans took part in the slaughter of Chinese students in Shanghai.
>
> 9. In April, 1927 American gunboats shelled Nanking in order to compel Chiang Kai-shek to surreder to the imperialists.
>
> 10. From 1931 to 1933 America supplied arms, planes, and money to Chiang Kai-shek to suppress the revolution.
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> 11. During the Japanese war of aggression against China, America supplied arms, material, scrap iron to Japan, and the constant flow of war essentials did not stop until the attack on Pearl Harbour.
>
> 12. The commercial treaty signed in 1947 between the Chiang Kai-shek government and America was "unequal" and "almost comparable to Japan's Twenty-one Demands in severity."
>
> 13. From VJ Day to June, 1943 America supplied Chiang Kai-shek with arms and money and even military personnel to fight the Communists.

No one, would for a moment suggest that in her dealings with China America has always been on the side of the angels, and that there is no plot on her fair escutcheon. But it would be equally false to paint the whole history of American relations with China in total black, unrelieved by brighter spots. Take, for instance, the Open Door doctrine of 1899. That was the time when almost every power that had anything to do with China was intent on carving up the old, tottering Chinese Empire while America, to her everlasting glory, not only refused to take part in the sordid business, but tried to stop others from doing so by timely diplomatic intervention. The Communists, however, contend, with of course some show of qualification, that America was not at all interested in preserving China's territorial integrity, she was primarily interested in getting a share in the China trade. The Open Door doctrine was, they believe, nothing more or less than an intrigue to place China under the joint control of the United States, Great Britain, and Tsarist Russia.

In fact, the Open Door was not an American doctrine at all; it was British. Russia had moved into Manchuria and claimed also North China as her sphere of influence. The British claimed the whole Yangtze valley as their sphere of influence. Russian aggressive expansionist policy came into conflict with the British. The only peaceful solution for Britain was to come to an agreement with the Russians at the expense of China. In London it seemed that the situation was favorable for a partition of spheres of influence in China between Russia and Britain, so long as the Siberian railroad was not yet in full operation. The British envoy at St. Petersburg advised his government to negotiate a modus vivendi in the Far East. The negotiations over the agreement lasted for more than a year. Finally it was signed on April 29, 1899, covering mainly the building of railroads in China. Its real implications extended, of course, into the political field also. The British zone was described as "the provinces adjoining the river (Yangtse) and Honan and Chekiang." The sphere obtained by Russia was defined as the territories lying "to the north of the Great Wall." The Russian concession to Britain consisted in the abandonment of Chili (new Hopei) Province. As far as Manchuria was concerned the doors remained effectively barred to the other powers as a result of this agreement. Russia, however, continued to advance, and Britain was helpless in checking it. For this reason Britain appealed to the United States, which had just started on a course of "imperialist expansion" with the conquest of Cuba and the Philippines, to come to "contain" Russian expansionist tendencies, and the Open Door was the result. The idea was first broached in the House of Commons as early as the spring of 1898. When John Hay, the American Secretary of State, asked William Rockhill, in August 1899, to draft a memorandum on the Open Door, the latter got the advice of Afred E. Hippisley, a British Commissioner of Chinese Maritime Customs, who had recently come from China on leave and had a first-hand acquaintance with the problem. The Open Door, therefore, was not an act of selfless benevolence toward China; on the contrary, it was in essence an economic countermove to thrust open the doors to American businessmen, traders and investors whose imaginations had been fired by the possibilities of the Chinese trade.

There is much to be said about the Communist argument. Historically, the Open Door was primarily motivated by self-interest. In those days the prospects for trade were much brighter than they are now. In 1820, for example, China occupied a place of great importance in America's foreign commerce, representing more than a tenth of America's total trade with foreign countries, the Chinese buying 11.8

CHRISTMAS GREETINGS
from the
Far Eastern Economic Review

With the fighting in Korea and the reported failure of the United Nations to persuade the Chinese communist delegates that peaceful negotiations are at all times preferable to war, as well as the consciousness of growing difficulties to be faced by Hongkong's trade as a result of the imposition of embargoes by the United States and Japan, it may appear somewhat extravagant to wish our readers, their families and firms a Happy Christmas and a still happier and more peaceful New Year than 1950 proved to be.

However, like the man who agrees, to quote a well-known adage, that "When business is good, it pays to advertise; when business is bad you've got to advertise", we feel that now when restrictions indicate that "business is (likely to be) bad" we have all the more reason to emphasise our sincere hope for a Christmas redolent with its usual light-hearted gaiety and freedom from care, to be followed by a prosperous and contented 1951.

percent of all American exports and selling 10.9 percent of all American imports. The Open Door was intended to safeguard this trade. In his original notes to the Powers, Secretary John Hay made no reference to the integrity of China and interposed no bar to the extension of spheres of influence.

But in all fairness to America it must be said that though the doctrine was conceived in self-interest, its subsequent application did, however, lead to a conscious effort on the part of the United States to help China become an independent and strong nation. This important principle later found its way into, for instance, the Nine-Power Treaty of 1922, the Stimson doctrine of non-recognition of Japanese conquest of 1931, and the Hull doctrine of non-appeasement of the late thirties. Even at the very beginning the Open Door helped to temper the wind to the shorn lamb and saved China from imminent partition. The Communists may not admit this, but facts speak more eloquently than the best of arguments.

* * *

America is not only to be hated, she is to be despised as well. Why? Because, in the opinion of the Communists, she is "decadent," "corrupt", and "imperialistic;" and because she is the world's arch protagonist of reaction. With great ingenuity and a show of documentation, they undertake to prove their points. President Truman, they allege, is a puppet in the hands of the capitalist plutocracy known as the American Manufacturers' Association. This powerful organization, which is composed of 1600 industrial combines and whose total assets reach the astronomical figure of US$600,000,000,000, is under the control of a twelve-man board including the Morgans, the Rockefellers, the Duponts, etc. American domestic and foreign policy has its origin in the decisions of this plutocratic body who send their agents—Secretary of State Dean Acheson (a corporation lawyer and therefore a servant of the capitalists), Chairman of the National Security Resources Board W. Stuart Symington (a big industrialist), Truman's personal adviser Harriman (a scion of the Harriman railway and financial interests) and a host of others to watch over the President. American government is not, therefore, a government of the people, by the people, and for the people, but a government of the capitalists, by the capitalists, and for the capitalists.

Moreover, American government is an organ of oppression and tyranny. The common people, the Communists allege without bothering about any evidence, live in a state of abject poverty, and more than fifty percent of them cannot even subsist, tens of millions do not have a room to live in. Democracy is a fake, and in the 1948 general election more than one third of the voters were deprived of their right to vote. Although the working people constitute one half of the total population, they do not have a single representative in the two houses of Congress. Not only are the people voteless, they do not have the liberty of assembly and speech. The common people in America live in constant terror because they are liable to arrest by the egregious Edgar Hoover and his tens of thousands of "gestapo" agents.

That America is the world's arch protagonist of reaction is shown by the fact she is actively promoting war against the progressive and "democratic" states. She has secured military bases in Korea, Japan, the Philippines, India, Indo-China, Turkey, France, Britain, Western Germany, Denmark, Norway, Iceland, and the islands in the Pacific. America not only has embarked in a gigantic armament programme of her own, she is actually forcing the countries in Western Europe to do the same. She has refused to come to terms with the Soviet Union in regard to the control of atomic energy. The capitalists like war; it is a source of profit to them.

Such, in brief, is the Communist view of American foreign and domestic policy. It is obvious that the ideas are highly confused. It is obvious, too, that the source of information is chiefly Russian.

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In spite of America's desire for war, American military strength is not, according to the Chinese Reds, as formidable as it appears to be. America is in fact only a "paper tiger," ferocious in outward appearance but fundamentally weak. Its natural resources and production capacity are of course enormous. But this factor alone would not balance her weakiness in the inferiority of her weapons. The Soviet Union has better tanks, better planes, and better submarines. In the event of war, Western Europe would immediately fall under the control of the Soviet Union, who can make use of the industrial potential of Germany and France. Thousands of miles away, America would not be able to do much to save Western Europe.

As to atomic weapons, the Soviet Union has them too. Granting that America has more atomic bombs in stock than the Soviet Union, that does not make much difference in the outcome of the war. The atomic bomb is not as devastating as it is commonly supposed. Its power of destruction is about the equivalent of 2000 to 3000 tons of ordinary bombs. America and Britain dropped about 1,350.000 tons of bombs on Germany during the last war which in terms of destructive power amount to 450 to 675 atomic bombs. Yet Germany was not defeated by American and British bombs, but by the valour and heroism of the Soviet soldiers.

Finally, there is the problem of manpower. The Soviet Union has a population of more than two hundred million. The People's Republic of China has a little less than five hundred million. Their combined population of seven hundred million is about one-fourth of the world's total. Added to this the manpower of the Eastern European countries, the "democratic front" headed by the Soviet Union would have a total manpower of more than eight hundred million. With this tremendous manpower, the "democratic front" is unbeatable. America and its allies would meet the same fate as militaristic Japan and Nazi Germany in the event of a World War III.

Korea was invaded by American imperialists, the Chinese Communists say, at the behest of Wall Street. The soldiers have no idea of what they are fighting for. Hence their morale is low They cannot possibly defy the onslaught of the Chinese "volunteers" who know that they are defending their neighbor from the encroachment of imperialism as well as against aggressions on their own country.

* * *

To appreciate the volume of Communist propaganda it must be remembered that in China, as in all Communist states, the government controls all media of mass communication. There is no way for the people of get at truthful information upon which to form an intelligent opinion. In fact, intelligent opinion is about the last thing the Communists would tolerate. The Communist press is not primarily concerned with informing the people about what has happened; its job is to give the Party's view of what has happened. This applies even to papers ostensibly representing the "democratic" groups. Thus the papers carry hardly any news at all, but only such scraps of official information as may be deemed suitable for popular consumption. Instead of news, they print pages upon pages of unadulterated falsehood. Yet they claim that theirs is the freest press in the world. It is so because it is dedicated to the propagation of truth—the "scientific truth" of Marxism-Leninism—and it is all for the good of the people and free from the corruptions and distortions of the capitalist press. The danger of this is that the policy-makers are apt to be intoxicated with the falsehood of their own brewing and in the end lose all sense of self-restraint and at once exaggerate their own strength and the weakness of others. The Korean intervention is a case in point. The question is. Do the people of China believe it?

This is, of course, a difficult question to answer. In a totalitarian regime there is no public opinion; there is only official opinion. Nobody dares to express an opinion which is opposed to the official one. But the common people in China have a healthy sense of skepticism which is allergic to official propaganda. The vast majority of people do not know much about America and don't care. The government may fulminate against American imperialism, but its noisy invective leaves little impression. The ordinary farmers and tradesmen are too much preoccupied with the hard business of making a living to be bothered about that.

But what about the educated classes, especially those who have good knowledge of America and its institutions and way of life? On the whole they are not in sympathy with this kind of false propaganda. But most of them are nevertheless conforming. This may be against their conscience but for the sake of self-preservation there is no choice.

The Communists are perfectly aware of the fact that the support they receive from the educated classes is chiefly of an opportunistic nature. They know it is far easier to change the outward behavior than to change the heart. But they are not in a hurry. They believe that however skeptical one may be at the start, the constant iteration of one single theme is bound to produce its effect in due course of time.

Whenever the Communists stage an anti-American rally or hold a discussion group they make it a special point to call upon persons with an American education to cast the first stone. They particularly relish the irony of having as the chief speaker the head of an American supported institution. It is expected that the speaker should display super-militancy. And they usually get it. This is not due to a lack of moral courage. It is rather because the men responsible for the management of these institutions are anxious to keep them going under exceptional difficult circumstances. It is a choice between closing down and paying lip-service to the campaign. They choose the latter as the lesser of the two evils.

The only unrestrainedly enthusiastic group of Communist supporters is the students. Idealistically-minded and politically gullible, it is easy to rouse them to do anything the Communists want. Perhaps much of it is sheer youthful enthusiasm. Perhaps there is something appealing in the banners, crowds, rousing oratory, slogans—such things seem to produce an atmosphere of mass intoxication.

* * *

While America's stock is falling in China it is by no means worthless. There is still a considerable body of people who do not believe that America is China's enemy, do not believe in the "fraternal love" which the Russians are supposed to have for the Chinese, and do not believe that Russia has changed much since the days of the Peters, Ivans, and Nicholases. Their voices may have been stilled but they know that America is not what the Communists say it is. The chorus of hate and rancour is not likely to bulge them an inch.

That America has not lost much of its former charms for the young city people in China is seen in the fact that they still prefer America to almost any other country as a place to pursue advanced studies. To go to America is as glamorous an undertaking to the young Chinese as the continental "grand tour" was one time to the well-born young Englishmen. The curious thing is that some of the noisiest and most ribald America-baiters in China still regard America as the best place to send their sons and daughters. This is the greatest possible tribute they can pay to the country which they seem to hate so ardently.

Although some kind of barrier or curtain—certainly not yet of iron—has already been rigged up to keep Westerners and Western influence out of China, there is still no way to keep the Chinese from going out of the country. Thousands travel daily between Hongkong and Canton. Newspapers and magazines smuggled across the border are being read with avidity behind shades by all who know how to get hold of them and have the money to pay. The secret and hush-hush atmosphere which usually surrounds such surreptitious literature makes it all the more enticing to the curious. At a result Canton has become the center of privy whispers and wild rumours. which tend to militate against the potency of Communist propaganda.

Whatever the rulers of New China may say about the virtues of the Soviet Union and the crimes of the United States, the fact remains that relatively few persons in China know very much about Russia or speak the Russian language and the number of people who know America and have a working knowledge of English are legion. In the institutions of higher learning American books are available in great abundance, and students still go to them for information and enlightenment. It would be a long time before Russian can take the place of English as a key modern knowledge. This being the case, America has not yet lost out in the realm of ideas. And as long as American books are read there is wide room for hope.

* * * *

The anti-American campaign is really an anti-Western campaign. America is singled out as the chief object of attack because she happens to be the leader of the Western world. The propaganda machines can be switched easily enough to the British if and when the occasion calls for them.

There is another factor which will play an increasingly important role in shaping Chinese attitude towards America or, for that matter, Britain. It would be difficult to deny that the social and political ideals of the English-speaking world rested until recently, and some extent still rest, on the unspoken but nevertheless real assumption of the superiority of the white man in general and of certain sections of the white race in particular. This assumption, reflected in innumerable ways, has poisoned, or at least coloured, its dealings with the peoples of the East. The strong point of the Soviet ideology is that it is framed not in terms of race but of class. Whatever one may think of the Soviet political behavior, the Russians certainly do not act as if they were superior to the Oriental peoples. This is not one of the least reasons for their success.

The Chinese people have long suffered oppression and indignity at the hands of Western Powers. Although America has been traditionally their friend and, as we have shown, still is, many people in China, otherwise anti-Communist, get a sense of thrill and exhiliration when they hear that Americans are being defeated by their countrymen. This is not because they hate America, which they do not, but because it is the natural reaction of the oppressed.

America still has a great deal of good will left in China in spite of Communist propaganda. It is important that this fund of precious reserves, which has taken generations to build up, is not dissipated.

ECONOMIC WARFARE AND HONGKONG'S TRADE

The export licensing enforced by the US controlled and affiliated territories (such as Japan) as well as by Canada, beginning from December 3, has had unpleasant repercussions on Hongkong's trade and is bound to affect adversely business here. But under present conditions of stepped up fighting in Korea and an all-round deterioration in East-West relations, the intensification of economic warfare was to be expected.

All shipments from US ports, irrespective of the origin of the merchandise to be loaded, to China—which correctly includes the British colony of Hongkong and the Portuguese colony of Macao, being both primarily engaged in entrepot business for and on behalf of China —are now subject to licensing by the US Dept. of Commerce; while before the wholesale technical embargo only a number of so-called goods of strategic value were, in the US and Canada, required to obtain export licence prior to shipping, the present position is simplified, from the point of view of the US and Canadian authorities, by transferring all commodities onto the so-called positive list of the Dept. of Commerce, which makes all commodities subject to export screening and licensing. The understandable object of the control in America (which, as said above, covers all US administered territories and also Japan which is under SCAP control) is to prevent communist China from obtaining raw materials and such commodities which may, by any generous interpretation, assist the Peking regime in further building up its war industries.

In the democratic camp this American step must be welcomed; indeed, it was overdue as has been proved by the many acts of merchants who have, inspite of the various embargoes on strategic articles, managed to get such articles to communist China. Already merchants, of whatever nationality, are at work to foil the American export control by shipping US commodities to Bangkok, Manila, Singapore and other Far Eastern ports from where it is intended to get these goods to Red China. In its policy to deprive prospective enemies — and communist China is already an avowed and open enemy— the US has to contend with merchants who are, as history has shown in ancient times as well as today, a very ingenious and tough group, oblivious of the national weal if profits can be realised, especially if these profits are of some magnitude. This is not a general indictment of traders — there always are exceptions but they do not count when it comes to evaluating final results—but a statement of fact. What communists think of merchants and how they regard them in the general scheme of economic developments has been since Marx' Capital clear to every student of social science; the Chinese reds have compromised for the time being by allowing controlled activity of private merchants but they do not conceal their contempt for this class nor do they make any secret out of the fact that this class is destined to be liquidated before long.

Hongkong traders have shown outraged compassion for each other and have assailed the American embargo. Alarmist reports were circulated and, in the vain effort to cause the US government to reconsider the wholesale export licensing regulations, a picture of utter distress of local industries and merchants was drawn. It was however obvious to better informed traders that what the US intended was not to starve Hongkong of raw materials for its industries nor to deny the local population any consumer goods, be they classified as essentials or luxuries. Bona fide industries and bona fide trade will receive the goods they require but America must have the assurance that there will be no cheating and that no commodities will be sent to China unless such are specially licensed for shipment to China. Many protests here have been made with tongue in the cheek. Many merchants have shown surprise that their word seems not good enough, that they have to submit to wearisome evidences and, possibly, guarantees for handling, in future, American and Canadian commodities. How important Hongkong has been and continues to be for China's trade, especially since the take-over by the communists, is now being minimised and all accusations meet here with indignant rebuffs. This is only as could be expected; nobody will testify against himself.

Hongkong Government has, it is true, imposed export bans on a large number of war materials and strategic articles and the local authorities are doing their best to see to it that smuggling is curbed; however, the geographic position of this Colony militates against any airtight control and illicit exports from here as well as from Macao (where the authorities are not strict at all in the enforcement of export prohibitions, being inclined to remain on unofficially friendly terms with the menacing Chinese neighbor) are being shipped out. The preventive service of Hongkong Dept. of Commerce & Industry is doing a creditable job but there is on the lower levels corruption and the Chinese ability to defeat official controls is too well known to require any elaboration.

As far as the sterling area and Western European as well as neutral industrial countries are concerned imports of commodities required in China can be obtained here and they can be exported to China from here provided that these commodities do not come under export licensing or outright prohibition. The American trade authorities have taken the view that, after the communist intervention in Korea, the majority of industrial goods and a very large number of consumer goods could be of some use to China and therefore they have clamped down the export control which they intend to enforce with severity, at the same time also strongly suggesting to their allies that similar export controls are enforced in their respective countries and controlled territories. Hongkong, being geographically part of China, cannot be expected to enforce export controls beyond what the Imperial Government instructs the local Government to do. It devolves on London to issue orders which it will be up to Hongkong to enforce. It seems however that London has as yet not taken a very serious view of recent developments in China and Korea and wishes to see trade with China flow, though subjecting it to controls absolutely necessary in regard to strategic articles and war materials.

In case of further US-China aggravation of relations, it is likely that America will insist on imposing a blockade of the China coast. Such step would only be undertaken in cooperation with the allies of the US. As much as Hongkong — the whole community — would deplore such a development it must be realistically envisaged. It appears from the latest acts of the Peking government and the extremely hostile and warlike provocative announcements by the highest functionaries of that government as well as by its radio and the press that the time for conciliation is far off; indeed, continued hostilities must be anticipated and that means that economic warfare will have to be brought into play with growing thoroughness and effectiveness. Hongkong traders would be wise not to venture out with opinions and protests which could be interpreted abroad as signifying a pro-Peking attitude; the best policy would be to leave it to the chancelleries of the great powers and to obey regulations as imposed by the Imperial and local authorities. An attempt to influence London to softpedal economic controls, imposed with a view to curtail trade with China in war-essential goods of the widest possible interpretation, might easily be misunderstood in the capitals of the democratic nations and could result in most unfavorable views held abroad with regard to the local community.

Communist China has, in a reply to to the US embargo, taken, as was to be expected, a very defiant attitude. In its frantic hate campaign waged in China, today against the US, tomorrow engulfing other 'satellites' of America, Peking denounces everybody who uses American goods and calls on the citizens to refrain from doing business, in whatever form, with America. The first step was refusal at the Hongkong/Kwangtung borders to permit the entry of American goods, and even personal belongings of travellers, if exceeding a small quantity of say, US made toilet articles or canned food, were confiscated. This apparently unorganised movement of certain enthusiastic authorities in Kwangtung is now to be put on a systematic basis. North China—with which most of Hongkong's trade is conducted, Shanghai still remaining a little used port—imposed partial export embargoes, claiming that America must be deprived of raw materials which can be used in American 'aggression' against the people of China. At first only casings, sesame seeds, groundnuts and groundnut products have been put on the list of export prohibited articles as far as the US as a buyer is concerned. More articles are to be added in the future. That other countries can buy casings and then reexport them to the US is fully understood in Peking, but their intentions is not to really ban the export of these goods but to show to the people at home how 'strong' the government is and how they are dealing America blow for blow. Peking also imposed a new set of export duties on bristles, tung oil, groundnuts and groundnut oil (effective December 15, at the rate of 30% for bristles, 10% tung oil, 15% groundnuts and oil) and explained that thus the American paint and brush industries will be 'punished.' Again, the authorities in Peking realise that the US can well do without China's tung oil and bristles, supplies from South America in respect of fast drying oils being ample to offset any lack of tung oil, while the plastic industry is today capable to produce bristles in any required form and size thus making the good old Chinese hogs unemployed.

Hongkong's concern about American supplies of industrial raw materials, in the first place, was understandable in the first few days after the shock of the US export embargo; meanwhile a more sober appreciation of the facts has gained ground and today the local manufacturers realise that there will be only some delay in obtaining in the US the required licences. The general public which desires to buy American goods for satisfying its own needs will get these goods. The US Government is itself anxious to assist all its allies which includes Hongkong, a fortunate member of the British Commonwealth. The local Government will have a very trying job with collecting exact data about the requirements of local manufacturers but it is in the interest of the manufacturers themselves to provide accurate figures on the basis of which imports of raw materials from the US can be demanded. Consumer goods of US origin will also be available to a more than adequate extent but inspite of the haughty attitude in China and the 'blockade American trade movement' in China, there will be strong demand in China for American goods, including luxuries, and the supply of Hongkong, planned only for local consumption, may run short which must result in excessive prices. For some time and until a more uniform policy on economic warfare is being adopted in other democratic countries, supplies will be available from a number of European countries whose export will increase as a result of the US export embargo.

The honeymoon of Hongkong's trade seems at an end. Unprecedented prosperity has ruled here since the end of world war II and during the last 12 months the trade returns of the Colony have shown record figures. Trade with communist China has boomed. But the developments subsequent to the outbreak of the Korean war augur badly for continued prosperity here as, in fact, anywhere else in the world. The prospect for an earlier start of world war III than was previously estimated is now haunting the world; America and the British Commonwealth are rearming and imposing more austerity and sacrifice on the citizens. In the communist world hardship and self-negation is the lot of the people. Unless there will be a detente, Hongkong cannot hope for a reversal of the present trend which clearly points towards tightening of the economic warfare waged by the democracies in their fight for survival from communist imperialism.

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AMERICAN SHIPMENTS TO CHINA UNDER LICENSE CONTROL

All shipments from the United States to mainland China, Hongkong and Macao, are now subject to license. Effective from December 3, 1950, all persons and firms wishing to export to these destinations must submit applications for export licenses to the Office of International Trade, US Department of Commerce. This order was designed to put all commodities under control, whether or not they are strategic. This step has been taken after consultation with the US State Department, the Defense Department, and other Government agencies.

Because of the additional work load which this requirement imposes on the OIT, and because of the need for careful scrutiny, some delay in processing applications is inevitable. R. C. Miller, Director of OIT, said: "Regardless of any rumor or belief to the contrary, since the invasion of the Republic of Korea in June, no shipments of commodities having strategic importance have been permitted to move from the United States to Communist China, and no shipments of any kind to North Korea."

Under the new regulations, strict controls are also in effect over any shipments of foreign origin which enter U.S. ports or pass through any area under U.S. jurisdiction, en route to the U.S.S.R. and its satellite countries in Europe and to China, Hongkong and Macao. In-transit shipments to these areas, including shipments via free trade zones, require an export license whether or not the goods are on the "Positive List" of controlled commodities.

Publications of a non-technical nature may be exported to Hongkong or Macao under general license.

Validated export licenses are now required to all of the above destinations if the carrier has not obtained clearance from the final port of departure for a foreign port, even though any non-Positive list cargo aboard that ship had been cleared under previous regulations.

ESSENTIAL SUPPLIES FOR HONGKONG.

The Director of Commerce & Industry is giving all possible assistance to local firms who wish to import essential supplies for local manufacturing purposes. Certificates will be issued to merchants who show proof that the goods are for use in Hongkong. At a later stage assistance may also be given for the procurement of essential supplies other than for manpfacturing purposes.

Special application forms (C. & I. 53) for local importers and statutory declaration forms (C. & I. 54) for completion by factories have been prepared. Applications, together with the necessary statutory declarations and contracts, should be addressed to the Director of Commerce and Industry (Trade Branch), 2nd floor. Fire Brigade Building. (A fee of $5.00 will be charged for each certificate).

CONTROL OF CHINESE ASSETS IN THE US

The United States Government has taken measures as from December 16 to place under control all Chinese Communist assets within United States jurisdiction and issued regulations to prohibit ships of United States registry from calling at Chinese Communist ports until further notice. These steps were necessary to accomplish the effective control of the economic relationships between the United States and Communist China envisaged by the institution, on December 3, 1950, of the requirement that no exports would be permitted to Communist China from the United States without validated export licenses.

This action has been forced upon the US by the intervention of Chinese Communist military forces in Korea. In view of the commitment of Chinese resources in this unprovoked aggressive activity, the US Government cannot permit the Chinese Communists to have access to United States supplies or assets in the United States, the use of which under present circumstances clearly runs counter to the interests and objectives of the United States in the Far Eastern crisis.

It is not the desire of the US that this be a permanent restriction. So long as Chinese Communist leaders are willing to subvert their national interest and the welfare of the Chinese people to the designs of international Communist imperialism, it is impossible for the US Government to act otherwise. If the Chinese Communists choose to withdraw their forces of aggression and act in conformity with United Nations principles, the US Government will be prepared promptly to consider removing restrictions and restoring normal trade relations.

The same controls also are being applied to North Korean assets at this time. This is purely an administrative measure as North Korean assets are negligible.

THE BRITISH WAY

In the present welter of conflicting opinions and threats to world peace, it is pleasant to contemplate at least one hopeful sign of stability and resurgence evidenced recently by the announcement made by the British Chancellor of the Exchequer to the House of Commons, that Britain can now dispense with further aid from the United States under the Marshall Plan.

This official announcement, though not altogether unexpected in view of the steady improvement shown in Britain's financial status, was extremely satisfactory and pleasant. It has, in fact, proved how worthwhile the long drawn-out austerity has been to which the British people seem to have become more or less inured. It has of course, always been apparent that the drive for exports must eventually bear fruit, but the public as a whole were not fully aware that those goods manufactured for so long a time under the title "for export only", were at last bringing the nation to the much desired point of economic independence. Mr. Gaitskell's pronouncement was, therefore, indeed satisfactory and the justifiable pride felt in the knowledge that economic and financial stability is in sight can well be understood.

The figures given in this connection are worth repeating, indicative as they are of the wisdom and foresight of the American people in giving this monetary assistance and, at the same time, illustrating the good use to which these funds have been put. Since April, 1948 when first the Marshall aid programme was made available Britain has received $2,694,300,000 and can, if desired, still draw on the balance of the remaining portion for this year to the extent of $175,000,000. This does not, however, mean that Britain is now free of all responsibility in regard to this loan, for 13 percent of the total will have to be repaid and the payment of interest on this figure must commence in 1952 while repayment of the principal commences in 1955.

Mr. Gaitskell also gave warning that the suspension of Marshall aid does not signify complete economic recovery, although it is undoubtedly a long step towards that desirable goal. Many sacrifices, as the British people already know, will still have to be made. In fact austerity in a very severe form must continue and may even increase. Indeed, to quote but one instance, it has already been announced that the weekly meat ration which was in truth small enough, is to be again reduced in the coming year to the equivalent in value of one shilling per head per week. In parenthesis it should be pointed out, that this particular reduction is mainly due to the British Government's wise refusal to be browbeaten by circumstances into acceptance of what they consider an unjustifiable increase in the price of meat supplied by the Argentine Republic under the terms of their agreement. This reduction in the weekly ration is considered preferable to yielding to pressure, and the public of Great Britain is apparently in complete accord with the Government over this decision.

There is now the further heavy blow that with the world in its present unsettled and potentially dangerous state, the British people must perforce face the distasteful task of rearming. The defence programme, which will apparently be shared to some extent with other Western Powers has still to be geared up to the requisite strength, but it is evident that once this has been set in motion further sacrifices will be called for. Factories now exclusively devoted to the export drive will necessarily be re-directed towards the requirements of military supremacy, and the dollar gap, the contraction of which has led to Mr. Gaitskell's announcement, may again show signs of widening. Whatever comes, however, it is clear that the British public is prepared to face any sacrifice demanded in order to ensure freedom in the wider sense of the word.

It would not be altogether reasonable to omit Hongkong and those other countries coming under the title of the "British Commonwealth of Nations", from any comment on Britain's effort towards economic recovery. They have also played their part towards the outstanding success already achieved and while some of the restrictions necessarily borne by the people at home may be reflected in part by the residents of this Colony in the next few months, they will see their justice and wisdom.

This Christmas then, instead of being spent in gloomy forebodings, can be brightened by the thought that come what may Great Britain—and the term "great" is used advisedly,—together with the Commonwealth nations and colonies, still retains a spirit which values liberty above all else.

THE PRESENT EMERGENCY AND RAW MATERIAL SHORTAGES

The existing and threatened raw-material shortages in the free nations and what to do about them are under study in Washington and London. The problem of raw-material shortages is a threefold one: How to increase the production; How to assure equitable prices; How to make a fair distribution of available supplies.

Experts say that raw-material shortages make up one of the chief problems facing the free nations as they seek to build up their defenses quickly against the threat of international Communist aggression. The importance of this problem was acknowledged in the joint statement issued last week by British Prime Minister Attlee and President Truman at the end of their conferences. The statement said that while defense production of raw materials in short supply must be given the highest practicable priority, "the essential civilian requirements of the free countries of the world must be met so far as practicable." In consequence, the two countries would work closely together to increase supplies of raw materials.

The statement also said, "We have recognized the necessity of international action to assure that basic raw materials are distributed equitably in accordance with defense and essential civilian needs." A corollary of this is to prevent materials in short supply and items of strategic importance from flowing into the hands of those who might use them against the free world.

Economic working parties were set up during the Truman-Attlee conference to study specific problems in the supply and allocation of raw materials. They were joined by representatives of the Organization for European Economic Cooperation.

Shortages in some raw materials have been plaguing the United States and some European countries, especially Great Britain, for several months. These shortages have raised problems that can be alleviated sometimes by national action. But when international action is required, remedial action is more difficult. For example, the United States has reduced consumption of aluminium for non-military production to assure more supplies for defense industries. But in addition, the U. S. Government has arranged for three domestic aluminium producers to increase their capacity to an additional 790 million pounds a year in the next two years. This amounts to a 23-percent increase over present capacity. On the other hand, the United States is much more dependent on the world market for such vital raw materials as rubber, tin, and wool.

To alleviate raw-material problems by international arrangement requires, among other things, that participating countries realize the need for government control so as to make most effective use of the scarce materials. In the last war, the United States, Great Britain and Canada accomplished much toward increased production and effective use of scarce materials through their combined raw materials board. In their task they had the informal cooperation of other Allied nations.

The leading nations concerned with the problem of raw-material shortages will soon propose some type of international machinery to get a similar cooperative program started. Through informal cooperation, the benefits can be rapidly extended to all the seven nations opposing international Communist aggression. However, as long as such international machinery does not exist — and it takes considerable time to establish it—informal cooperation alone will have to be sufficient. There are several probable courses of action: First, agreement will be necessary on the raw materials that require regulation. The next step would be to establish how great a flow of supplies, at fair prices, can be attained by price and purchase guarantee. Third, measures will need to be taken to increase production, either through loans or grants or by the supply of equipment and technical aid and associated economic development services.

There is now great need to increase production to prevent severe cuts in the supply of consumer goods and a consequent lowering of living standards. Nonetheless, in the long run, extension of allocations and controls of raw materials in the free world generally must be considered within the realm of possibility.

THE BRITISH INDUSTRIES FAIR

The first news of next year's 30 April—11 May 1951 exhibits covers a very wide range of goods, extending from 'pocket laboratories' to ornamental ironwork, diamonds and plastic divans. The pocket laboratory comprises sets of tablets for testing water supplies i.e., for detecting and determining the amount of ammonia, chlorides, metallic impurities, degree of hardness and so on. It is intended particularly for work in undeveloped areas, and was specially developed at the request of Middle East buyers.

The Readjustments of the Foreign Exchange Rates in China

From our Correspondent in Peking

Foreign exchange rates in China began to take a downward direction in favour of the People's Bank currency from the beginning of April this year when the country's inflation started to be checked and prices dropped. By July prices throughout the country were quite firmly stabilised and they have remained, at least for the native products, more or less at the July levels till the present, yet the exchange rates have been downed several times since. The following table shows the different readjustments, the last one being still in force at present.

	US$	£	HK$
	PB$37,500	98,900	6,120
July 1 ..	36,000	95,600	5,950
8 ..	35,000	93,200	5,800
26 ..	35,000	91,440	5,690
Aug. 7 ..	32,200	81,220	4,950
Sept. 5 ..	31,000	72,210	4,750

Between July and now the US$ has dropped by about 17%, sterling by about 26.9% and the HK$ by about 22.4%. On July 1 the crossrates were HK$/US$ — 6.12, US$/£ — 2.63 and HK$/£ — 16.1 and the present ones are respectively 6.52, 2.32 and 15.2. It may be noted here that the blackmarket rates have never exceeded the official ones except for a very short period after the outbreak of the Korean conflict when the market reacted to the sudden shock.

These seemingly unwarranted downward movements of the rates have raised controversies in the minds of those concerned and weak voices of dissatisfaction from some exporters and recipients of overseas remittances were heard. To vindicate these readjustments explanations have been offered. It has been strongly pointed out that the Korean debacle has caused the soaring of prices both in America and Britain. The statement was substantiated by Moody's index which registered 99.31 on June 24 (December 1949 as base) as against 135.92 on August 30 showing an increase of 36.8% in prices in America while Reuter's index showed an increase of 12.3% during March-August over prices in UK. On the other hand for the same period a general drop of about 12% in the prices on the native markets in China was registered. This was meant to show that while the foreign currencies were being depre-

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Travellers will appreciate the transformer-adaptor which enables any make of electric dry shaver to be used on any voltage throughout the world. Another new electrical device, but one of far more limited application, but one moisture meter which can indicate the moisture content in sugar to the remarkably low figure of below two per cent. It has also indicated 97 per cent water content in Beeta Pulp. A second instrument which can determine accurately moisture content of paper is already in use in British papermills.

Another new exhibit announced for the Scientific Section is a 16 m.m. sound film projector claimed to be the smallest machine of its type in the world.

New ball-point pens specially designed for marking and labelling as well as four-colour pens will be shown in the Stationery Section. The makers of the four-colour pen will also be showing a new development in the field of drawing office technique. It is an autoliner which is said to increase the output of detailed drawing by at least twenty per cent.

The miscellany of new products extends also to rotary electric hedge trimmers revolving at nine thousand r.p.m.; paper toys from paper pulp; a seven cubic foot refrigerator operated by electricity, gas, oil or bottled gas; Britain's first 'mass-produced' wristlet watches; illuminating cosmetic compacts; miniature printing machines for amateur magazine publishers; and a range of earthenware goods specially designed for out of door living. The firm which last year announced the perfection of the world's first plastic skeleton (now selling well overseas) will be showing at next year's B.I.F. the first flexible model of the human brain, with anatomical markings. This development will be of immense interest to hospitals, schools and universities, since previous models made in hard plaster material easily break and chip.

Pride of place at the Fair will be given to Textiles, and the Industry has promised to put on the best display ever. No general disclosures have yet been made of the nature of this display but preliminary reports from individual exhibitors indicate at least that its scope will be very wide.

The British Industries Fair will be held, as usual in London and Birmingham, from April 30 to May 11.

ciated, the PB$ was even recovering its value. It followed that the lowering of the rates to come abreast with the foreign depreciations was deemed not only justifiable but necessary.

The bad effects on the prices of imports on domestic markets by keeping unrealistically high rates of exchange have also been pointed out as already evidenced by the increase of 29.3% in Tientsin during June-August, the Tientsin imports price index on June 23 being 164.3 and that on August 30 being 212.65. The increase in prices of imports on domestic markets would lead to the increase in the cost of some of the native-manufactured industrial products that require imported raw materials. In fact these products have already demanded a higher price on the domestic consumer's market, upsetting the already stabilised ratio between industrial and rural products. This constituted another reason for lower foreign exchange rates so that prices of imports in spite of the increase in foreign prices might be brought down to proper levels within the country in terms of PB$.

Another explanation was found in the urgency of the country's needs for certain essential supplies which point was noted at the Import and Export Trade Conference in August. The urgency was further precipitated by the precarious world situation. Therefore it was not but politic to have lower exchange rates to stimulate imports. The policy indeed proved a success, for the import business did become and remain very brisk during the past several months and many important supplies were secured for the country.

However these explanations did not sufficiently serve their purpose in the minds of some exporters and foreign remittance recipients as far as their interests were concerned. Some even suggested that the government should foot their losses through the rate readjustments. To pacify the wailings, two measures were adopted. The first is the "ling system" by which a merchant may keep from surrendering his proceeds from exports longer than the stipulated period (one month from the date of approval) so as to enable him to co-ordinate his imports with them. The second is the "advance surrender system" by which an exporter may surrender his L/C as soon as it is received, so that possible losses through lower readjustments of the rates during the process of exportation may be obviated. These measures are applicable only in the case of certain "hot" exports such as tung oil, bristles and raw silk. At the same time lower railway transportation charges have been extended to all exports and lower tax rates on certain export articles have been effected.

To the recipients of overseas remittances some convincing figures have been given. US$1 can buy as many catties of millet now as 6 months ago (about 26 catties) and is equivalent to about 6 parity units in Shanghai and Tientsin and about 5½ in Canton and over 4 in Amoy all of which are nearly equal to the ratios prevailing six months ago.

The official stand is that while considerations are given to all concerned in the readjustments of the foreign exchange rates no guarantee is given that the rates will not go further down if the native currency remains stabilised while foreign currencies should continue to depreciate.

THE RAW COTTON SITUATION IN CHINA

With gains all along China's economic front, the rehabilitation and development of the cotton industry was to be expected. The speed and degree of rehabilitation have been impressive. Set goals have been met and surpassed.

700,000 tons of ginned cotton have been harvested this autumn. The goal set by the government early in 1950 for this year was 650,000 tons. Figures for the present year outstrip the average yield for the five years preceding the the Anti-Japanese War when the area planted to cotton was largest. This means that China's textile mills are in the main assured of adequate supplies of raw materials. This will also reduce urban unemployment.

In April this year—at the time when the cotton planting season was about to start—the All-China Federation of Labour called for emergency help for 100,000 jobless workers in Shanghai. One reason for this unemployment was the difficulties which the textile mills, the most important Shanghai industry, faced through lack of raw materials. Many spinning and weaving shops which once worked day and night were forced to operate on reduced shifts. Some mills suspended operations altogether.

This distressing situation was not peculiar to Shanghai. Textile mills in other cities faced the same problem. Of the 5,200,000 spindles which China has, about 4,200,000 were then in operation. But the ginned cotton was far from sufficient to feed all these spindles.

The cotton industry, like other Chinese industries, depended on foreign sources for raw materials and markets. Figures in the following table show how China in the past depended on foreign cotton, chiefly American, to run its textile industry.

YEAR	IMPORT Metric Tons
1931-36 (annual average)	139,739.33
1937-45 ,, ,,	78,620.00
1946-48 ,, ,,	164,046.53
1949	51,627.40

In the early part of 1950, a small amount had to be imported until New China's first cotton harvest could be gathered. This year, with the cotton harvest estimated at 700,000 tons, the problem of an adequate supply of raw cotton is nearing solution. This means that the textile mills, as well as a number of other industries connected with spinning and weaving, can face the future on a sound basis. With foreign exchange saved as a result of the reduction of cotton imports, it will be possible to purchase machines to speed up the country's industrialisation.

When the Central People's Government drew up its over-all plan for agricultural production at the beginning of 1950, many people thought that the target of 650,000 tons of ginned cotton was too high. To appreciate what the completion. and overfulfilment of this target means, the results must be viewed against the destruction which war brought to the cotton-growing areas and the breaching of dykes.

During the first years immediately preceding the Anti-Japanese War, the average cotton output was 638,000 tons per year. It dropped until 1949 the total harvest was 425,000 tons. This was due, first of all, to the dumping of imported cotton and the resulting low price for home-grown cotton. For one pound of cotton in 1936, a peasant could buy 11 pounds of millet. This ratio fell in the years from 1938 to 1943 until it reached 1:5. At this point, it was not worth the farmers' while to plant cotton. Another reason for the decrease in the size of the cotton-growing area was the food shortage caused by the protracted war. Without enough grain to eat, the peasants had to reduce the area planted to cotton so that more food could be raised. In addition there were war-time shortages of manpower and draught animals, frequent floods, droughts and plagues of pests. Then, there was a breakdown of trade between the countryside and the cities.

The harvested areas for cotton this year is estimated at around 3,373,000 hectares, or 12 per cent above the government target. The reasons for the large crop are found in the following factors: (1) The War of Liberation being practically completed, peasants have been released from war-time duties. With land reform already carried out in the old liberated areas and rent reduction in the newly liberated areas, peasants have shown a new zeal for production. (2) Government has paid attention to the establishment of a reasonable ratio between cotton and grain prices in order to raise the peasants' interest in planting cotton. The planting of cotton has been made more profitable than the planting of grain. In some areas, contracts were drawn up between farmers and state trading companies, whereby the former were guaranteed manufactured goods in advance of payment against the cotton harvest. The government has also announced that cotton, as well as grain, can be used to pay agricultural taxes-in-kind (3) Government has tackled the water conservancy problem. In building dykes and canals 360,000,000 cubic metres of earth were moved. Government set up more experimental farms and nurseries for cultivating selected cotton seeds; it provided farmers with insecticides, sprayers and fertilisers, imported good quality seeds and distributed them to all cotton areas. The equivalent in value of 30,000 tons of grain was invested in such undertakings. (4) Lastly, the cadres and Party members assigned to work in cotton areas worked at their jobs tirelessly. In key areas they organised teams of experts to direct the farmers in cotton growing, they utilised newspapers and pamphlets to praise model cotton-growers and publicise various planting experiences. They convinced the peasants of the need and advantages of growing cotton.

The results have been striking. The broad cotton belts in the vast basins of the Yellow and Yangtse Rivers, on the great plains of the Northwest, and in Northeast China, are a delight to the eyes of a cotton farmer. The average yield per hectare is expected to come close to the best pre-war level of 194 kilograms of raw cotton per hectare. Some 16.4 per cent of the total area under cotton has been planted with the long staple variety, which previously was always imported from abroad. This has now been introduced into every cotton-growing area in China.

There is still a big task ahead before supply can wholly satisfy demand. The demand for cotton is rising steadily as living conditions of the people improve. The increased demand for cotton is shown on the example of the Northeast where 800,000 bolts of cloth were used in 1947, 1,200,000 in 1948, and 3,200,000 in 1949. In 1950, it has been estimated that the people of the Northeast will want over 9,000,000 bolts of cloth.

To produce one bolt of cloth, 5.25 kilos of raw cotton are needed. The population of the Northeast is about one-twelfth of the total population. Thus, if the demands in the Northeast are taken as a standard, at least 600,000 tons of ginned cotton will be needed to supply the textile industry alone. If other uses for cotton such as medical and chemical uses, padded clothes and quilts, and so on, are taken into consideration, at least 900,000 tons of ginned cotton will be needed .

The present 700,000 tons of ginned cotton will be adequate to keep the country's textile industry running for a year. A Three-Year plan has already been worked out laying emphasis on the selection of seeds and on increasing the yield in every unit area. By 1953, cotton experts expect that China will not only be in a position to meet her own needs, but will have a surplus for export.

PRESENT CONDITIONS AND FINANCIAL PROBLEMS OF JAPAN'S ECONOMY

By Yoshizane Iwasa

(*Managing Director of The Fuji Bank, Ltd.*)

The act of aggression committed by the North Korean forces over the Thirty-eighth Parallel on the dawn of June 25 has exposed before the eyes of the world what exactly was meant by "peace and freedom" by the Communists, who have posed themselves as the defender of those ideals. More than anything else the determined stand of the United Nations to defend democratic principles against the aggression has clearly indicated the path we should follow in future. In a world in which two major powers are coldly pitted against each other as at present, an attitude of neutrality or aloofness is no longer possible as a matter of practical consideration. This circumstance has thoroughly confirmed the wisdom of the choice made by Japan to build up a really democratic state, seeking security under the powerful wing of the United Nations. From this viewpoint, the war to defend democracy in Korea cannot be regarded in any other light than as the defence of democracy in Japan and, as the result, we are bound to give as much cooperation to the U.N. forces as possible. However, since no nation that is not economically independent can function as a member of the democratic front without being a burden to others, the most important problem of the moment for us is to attain such independence at the earliest date.

Now, is our economy capable of such a feat? If so, will it be an asset to the United Nations ? The answers to those questions can be elicited only by clarifying the actual pattern of our national economy.

In the following, an attempt will be made to outline, first, the economic conditions that existed prior to the outbreak of the war in Korea, referring to the basic questions of the economy of this country, and then, the immediate effects produced by that war and the problems that must be solved in the future.

1. ECONOMIC SITUATION IN JAPAN BEFORE THE OUTBREAK OF THE KOREAN CONFLICT

Though with numerous turns and twists during the past one and half years, the so-called Dodge Plan, which was designed to save the economy of Japan from the impending crisis of a catastrophic inflation by eliminating its basic evils and to pave the way to stability and economic independence, has achieved a miraculous success, in so far as it attained its main objective of arresting the inflation. For that purpose, a balanced budget was enforced for the Government; the sources of currency inflation were plugged up; inter alia, the operation of the Reconstruction Finance Bank was virtually suspended. However, it must be admitted, on the other hand, that in proportion to the rapidity and effectiveness of its process, the enforcement of the new financial policy gave rise to many frictions and difficulties.

The post-war inflation in Japan was not brought about simply by monetary causes. War-time consumption over long years and overnight diminution of production capacity due to the destruction of facilities by large-scale air-raids were no less responsible for it. Therefore, the economic policy in the immediate post-war period, which took up the production increase as its primary goal, may have had some justification, although it was based on the red-figures financing and was obliged to step up production only by aggravating inflation which was then regarded as a kind of necessary evil. At least it should be acknowledged that the so-called priority system which gave emphasis to the production of coal, iron and other essential materials in the first place and then gradually extended it to less essential items, so as to elevate the level of production as a whole in the end, had its own merits at that time. However, such production-first principle tended to give rise to a loose financing on the part of the Government, involving the abuse of subsidies for production and of long-term loans despite all business considerations. But there being no resources to draw upon, the only alternative was to resort to inflationary means. The result was that before the enforcement of the Dodge Plan, the tempo of the inflationary progress had risen to such an extent that it reacted rather to retard production while the spiralling prices exceeded the international price level, rendering it impossible for Japanese goods to compete with foreign wares in the world market.

The Dodge Plan, therefore, was indeed a timely deterrent for checking the progress of inflation that had gathered momentum. Yet, under that Plan, the volume of the Government's consumption, the most important desideratum in the immediate post-war economy, had to be drastically cut down, thus causing a decline in the so-called "effective demand" in general. Besides, suspension of functions of the Reconstruction Finance Bank interrupted the investing of capital in production facilities that had been in progress on an expanding scale, and thereby imposed restrictions on our productive activities. This naturally resulted in a corresponding decrease in the volume of demands. Hence, in a sharp contrast to the ascending period of inflation, there piled up an increased stock of goods, which inevitably brought pressure to bear on the rising prices and even caused their downward trend. A fall of 32.2 percent in the black market price of production goods and of 40 percent in that of consumer goods during the one year from April, 1949, to March, 1950, most eloquently demonstrates this trend. This fall in the prices, in turn, affected the business profit, and in particular those enterprises which had recklessly expanded their stock of goods were dealt a fatal below. Though not statistically established, an increasing number of small business units with a slim financial backing went bankrupt. Standards of employment also were worsened. After a series of reactions, therefore, the national economy of Japan, still on a frail foundation, found itself under a deflationary pressure.

Meanwhile, the devaluation of pound sterling in September, 1949, proved to be a main stumbling block in the way of the development of the nation's export trade. Overseas demand itself also suffered a setback. Further, possibility of straightening out the serious deflationary situation, created through internal causes, was being eliminated on account of our failure to promote export.

One of the main reasons for this plight may also be found in the failure to take timely and appropriate steps to ease the expected repercussions of the Dodge Plan, notwithstanding the fact that when the balanced budget was enforced for the Government, a set of collateral financial policies had already been formed by it, such as the use of any amount saved by it for retiring the old national bonds as a fund for industrial investment and the release of the U.S. aid counterpart fund at a proper time.

It was under circumstances as described above that the financial institutions of this country, with the Bank of Japan striking the keynote, had to cushion the essential industries which formed the backbone of our national economy against the deflationary impact, and to prevent the enterprises from going bankrupt as a result of the suspension of productive activities or to stem the tide of growing unemployment. Such actions of our financial organs at that time were criticized by some people. But they had to be taken for the sheer necessity of relieving the effects of the excessively deflationary financing of the Government, and were inevitable. The demand for funds for those purposes grew to a prodigious amount before long. The financial establishments mobilized almost all their funds available for loans to meet the demand, which, however, soon exceeded the supply, with the result that all leading commercial banks had to borrow from the Bank of Japan. But there was naturally a limit to this expedient of industrial and commercial financing. Indeed it is no exaggeration to say that, unless there was some positive development in our basic economic conditions, the economy of this country would have faced a serious catastrophe.

But, just at this juncture the war in Korea out, and this entailed many unforeseen changes for the economy of Japan.

2. ACTUAL CONDITIONS OF JAPAN ECONOMY AND ITS BASIC PROBLEMS

The economic conditions of Japan have undergone a radical change as a result of her defeat in the war. She has been hard hit by the loss of her colonies, such as Korea and Formosa, which comprised about 40 percent of her pre-war territory and played an important part as the supply sources of food and raw materials and as an assured market for her industrial products. But no less thorough-going and precipitous were the effects produced on the economy of this country by a series of post-war economic democratization measures, such as the dissolution of Zaibatsu, the farm-land reform, the introduction of anti-trust measures and of the Labor Standards Law, the fostering of labour unions and the like.

It is true that even under the pressure of those fundamental changes our economy, as shown below, registered some improvement year after year. But, at the same time, the numerous problems that required solutions for good began to come into prominence. As indicated in the following table, our real national income which in 1941 had fallen to less than half the pre-war amount subsequently showed a roughly two-fold increase, though even last year it still accounted for only 85 percent of the pre-war level. If the 20 precent increase in the population is taken into consideration, it may be concluded that the national living standards stood in the neighborhood of 70 percent of those in the pre-war period. The Engel Index, which before the war ranged from 36 to 38, lingers around 55 at the moment, showing how far the national life has been reduced in quality.

Changes in the National Income

Year	Nominal Income (in million)	Price Index	Real Income (Index)
1934-36 Average ..	Y 13,400	100	100
1941	296,900	68.9	43.09
1942	917,000	178.9	51,25
1943	1,920,300	298.3	64.3
1944	2,715,400	317.0	85.6

Such a drastic fall in the living standards inevitably resulted in the diminished capacity of the nation to accumulate capital. The indisputable fact is that with the reduced living standards as at present it is not practicable either to replace such industrial equipments as were lost during the war or even to repair their wear and tear during the post-war inflationary period.

Generally speaking, the key to economic expansion of a country, like Japan, with poor natural resources can only be found in the promotion of foreign trade. It will be seen from the following figures that in the past also our national economy has always depended on the growth of our foreign trade.

Ratio of Foreign Trade to National Income

Year		National Income (in million)	Import & Export (in million)	Percentage of National Income
1930	......	Y10,800	Y3,015	26.4%
1931	......	10,000	2,381	23.8
1932	......	10,700	2,840	25.6
1933	......	11,800	3,778	31.9
1934	......	12,300	4,453	36.2
1935	......	13.500	4,971	36.8
1936	......	14,600	5,455	37.2
1937	......	17,000	6,958	40.9
1938	......	19,300	5,352	27.8
1939	......	24,200	6.493	26.8
1940	......	27,300	7.107	25.8

In 1938 and thereafter, our economic structure was rapidly converted into one of war production and the ratio of foreign trade to the national income gradually declined.

In 1949, however, our export amounted to no more than 16 percent, and the import, even with the 60 per cent thereof representing relief goods, amounted to only 29 percent, of the pre-war figures repectively. It would be obvious, in these circumstances, that the promotion of foreign trade, in particular the expansion of export, is the basic problem to be solved for developing the national economy of this country in order to attain the ultimate independence.

As an essential condition to that end, it is not only necessary that our foreign trade should be increased in volume but also the equality of trading terms and conditions be restored. In other words, unless the principle of non-discriminatory prices for both imports and exports is re-established, it would not be possible for Japan to expand her trade or to enter into reasonable relationships with other nations in the future.

While externally our economic independence hinges upon the development of foreign trade, internally it depends on the size of capital accumulation. The accumulation of capital may be either in the form of investment, directly offering the industrial funds, or in the form of deposits and savings that indirectly supply the funds needed for commercial and industrial activities. Traditionally the latter form has been encouraged in this country. Though after the war an emphasis has been placed on the direct investment through the so-called securities democratization campaign under the guidance of the Occupation authorities, the people in this country, with the exception of a few, have been unable to set aside a sufficient amount from their small incomes for making a direct investment, so that still at present the accumulation in the form of indirect investment possessses the greater practical importance. Therefore, for accelerating the accumulation of capital in this country, the most expedient measure is to give preferential treament to deposits and savings. This being so, it must be pointed out that the current taxation system leaves much to be desired. The heavy taxation on deposits and savings and the abolition of unregistered time-deposit may, of course, be theoretically well founded. But in this country, where the capital accumulation is yet in its infant stage, such measures are not quite advisable as they are likely to retard the increase of deposits and savings, thereby interfering with the general economic recovery. Without a favorable change in point of savings and deposits, our banking concerns would be obliged to limit their advance of commercial and industrial funds. As a matter of fact, however, with the demands for loans aggregating to a large amount, they are now being compelled to resort to "over loanings."

Structural Comparison of the Pre-war and the Post-war Trade

	Export		Import	
Total	1934-36	1949	1934-86	1949
	100%	100%	100%	100%
By Commodity				
Textiles	51	55	32	22
Ores & metals	10	17	16	13
Machines	7	12	5	*
Ceramic	3	4	*	0
Chemicals ..	9	3	16	18
Foods	10	4	24	43
Others	10	5	7	2
By Area				
Asia	64	52	53	13
(Neighboring Areas)	(44)	(11)	(37)	(6)
(Southeastern Asia)	(17)	(35)	(16)	(12)
North America	17	17	25	66
(U. S. A.) ..	(16)	(16)	(24)	(64)
Other areas ..	19	31	22	16

Scurces: Ministry of Finance for 1934-36, and Economic and Scientific Section, GHQ, for 1949, figures.

* stands for 0.5 per cent or less.

The economic of Japan, on the other hand, still lags behind. While in machine industry our production has attained 112 percent of the pre-war average (1932-36), yet it accounts for only 16 percent of the peak output in 1944. As to textile production, it amounts to no more than about 30 per cent of the pre-war level, even with the equipments in full operation as nearly 80 percent of the pre-war facilities was scrapped during the war. The picture in the iron and steel manufacture is no brighter. As of March this year, the rate of operation was 31 percent for high furnace, and 43 percent for flat furnace.

In regard to the production potentials of mining and manufacturing industries of Japan, the Economic Commission for Asia and the Far East recently published a report in considerable details. According to this report, the production of capital goods in Japan in 1949 fell below 50 percent of the then exising capacity, and if all the idle facilities were brought into operation, it is estimated that the export surplus would have amounted to $285,000,000, or eight times the $36,000,000, the value of machines exported to Southeastern Asia, last year. Of course in order to increase the production of capital goods by, say, $250,000,000, a correponding increase in the supply of iron and steel would be needed. But the ECAFE report is equally optimistic as to the practicability of stepping up our iron facilities, and also as to the availability of iron ore and other raw materials for that purpose, it being apparently the purport of the report to link the prospective economic development of the Southeastern Asia with the industrial potentials of Japan.

Our latent ability to make contributions to the economic development of Asiatic countries is well demonstrated by the fact that since the outbreak of hostilities in Korea our industrial capacities have been utilized by the U.N. forces with advantage. However, in order to enable the national economy of Japan to make substantial contributions, a large amount of capital is needed. So, the induction of foreign capital has always been a subject of discussion in the post-war Japan, and in this connection we cannot help recalling the fact that Germany after World War I largely owed her economic recovery to foreign investments.

3. QUESTIONS OF THE HOUR

a. Effects of the Korean Conflict on General Business Conditions

Many an economic index shows clearly that the Japanese economy which had been suffering from deflationary conditions is now taking a big turn owing to the Korean Conflict. Especially, there is a conspicuous advance in the prices of commodities. Of course, the rise of prices resulting from the Conflict is not confined to Japan, but is rather a worldwide phenomenon. It is natural, however, that the effects of the Conflict should be most intensive upon the economy of a country like Japan which is still handicapped with a continued shortage of commodities. To be more particular, there was a noticeable stabilization of prices under the implementation of the Dodge formula of stabilization. The post-war inflation had reached its peak in February 1949 in regard to producers' goods, and in April of that year in respect of consumers' goods. Thereafter, both producers' and consumers' goods went down the hill, the former showing a decline of 41% by the month when the Korean Conflict broke out. After the Conflict, however, the uncontrolled prices of producers' and consumers' goods indicated an advance of 13 and 20½ respectively in the two months up to August, as will be seen from Table 1. This means that, in the space of only two months, both kinds of goods showed an advance corresponding to 50% of the decline which had occurred up to the time when the Conflict broke out. However, this advance should be regarded as abnormal, and is considered to have been largely due to speculative stimulation. For one thing, the uncontrolled prices of consumers' goods took a turn for the lower in September, recording a decline of 3%. Generally speaking, it is anticipated that the price situation will gradually tend toward calmness.

On the other hand, there was a growing increase in the war needs of the United Nations forces. In a space of three months, goods procurement orders amounted to about $60,000,000, and, together with the cost of labor, shipping and other services, the total came approximately to $100,000,000. In foreign trade, exports underwent a speedy increase, as the world market had taken on the aspects of a sellers' market, and topped $70,000,000 in August, as is indicated by Table 2. There was also an increase of 0.9 points in August, as compared with June, in production, according to the investigations made by the ESS, GHQ. Thus, the economic situation, as might naturally be expected, is becoming more active.

Reflecting these general conditions, and also actuated by speculation, the stock market, which had long been sluggish, went on the upgrade. At the end of July, shipping and rayon shares recorded as big a rise as of 70%. In August, the speculation in textile shares dampened, and in general a somewhat declining tendency set in. Nevertheless, share values on the average indicated a rise of 19% in August as against June.

b. Increase of Currency and Inflation

Under such economic conditions, the Bank of Japan notes issue changed to an increase from the diminishing or stagnant tendency which had continued for the past year and a half. In the three months from the outbreak of the Korean Conflict to the end of September, the notes issue increased by Y17,600,000,000, and it is expected that the currency will continue to expand. This expansion is causing a scare as a sign of another inflation. As, however, it would interfere with the proper functioning of currency to be needlessly scared by its expansion, the future monetary policy should be a fully cautious one with due regard to the changes in the economic background, and should at the same time include constructive intentions. Leaving out of consideration for the present the rise of prices consequent to the Korean Conflict, it has to be noted that the economic requirements of the Conflict for the Japanese economy have already mobilized the stocks piled in the past, and, as has already been stated, production is on the gradual increase, coupled with a growing expansion in foreign trade. Taken as a whole, the economic situation is increasing in activity. Consequently, it is in the nature of things that there should ensue some expansion of currency and credit. Indeed, an increase of currency and credit corresponding to an increase of production should be an inevitable concomitant of such economic expansion. It so happens in this country that the period from October to December is one when there is usually an expansion of currency owing to the economic custom of the people and for seasonal reasons. Therefore, even if the currency expands to a fairly large extent during this period, there will be nothing particularly fictitious about that. Such expansion should by no means be regarded as indicative of any inflation.

As will be seen from Table 3, in any October-December period even before the war, the currency showed an increase of over 30% over the end of September, such an increase being no more than an ordinary phenomenon witnessed each year in the Japanese economy. In 1949, this increase was restricted to slightly less than 20% by the application of a strong pressure, and consequently the year had to be turned under abnormal conditions of monetary stringency. This year, the requirements of increased production arising from the Korean Conflict have to be fulfilled. If, therefore, such a contraction of currency and credit as was effected toward the end of last year were enforced, there would be a blocking of the economic flow, and a crisis would confront that expansion of production which is needed for our cooperation with the United Nations. In prewar days, the increase in year-end loans as compared with the end of September did not exceed a certain rate, but such increase has greatly grown since the end of the war. This postwar intensification of the increase in year-end loans, which is also related to the question of so-called over-loans, is at the same time attributable to the fact that, owing to the monetary stringency especially enforced throughout the length of a year, the people's time-honored custom brings about a greater concentration of settlements at the year-end than would otherwise be the case.

Table 1 Changes in Economic Indices Due to Korean Conflict (I)

	End of June (A)	End of August (B)	B/A %
Bank of Japan Notes	311,185 (in million yen)	324,618 (in million yen)	104.3
Uncontrolled Prices of Consumers Goods	480 (Sept., 1945=100)	576.0 (p)	120.0
Uncontrolled Prices of Producers' Goods	324 (Aug., 1946=100)	368.0	113.0
Wholesale Prices	264.8 (Jan., 1947=100)	297.6	112.0
Production Index	93.6 (1932-1936=100)	94.5	101.0
All Banks' Loans	795,576 (in million yen)	854,706 (in million yen)	107.0
Deposits at All Banks	864,488 (in million yen)	899,157 (in million yen)	104.0

Table 2 Changes in Economic Indices Due to Korean Conflict (II)

(in million dollars)

1950	Exports	Imports	Excess of Either over Other
January	39.4	70.8	—31.4
February	51.1	76.4.	—25.3
March	52.9	76.2	—23.3
April	61.3	92.3	—31.0
May	52.0 (p)	75.4 (p)	—23.4 (p)
June	65.8 (p)	66.9 (p)	— 1.1 (p)
July	63.0 (p)	41.4 (p)	21.6 (p)
August	70.1 (p)	36.3 (p)	33.8 (p)

Table 3 October-December Period Increase in Bank of Japan Notes and All Banks' Loans

(in million yen)

	End, September		End, December			
Year	Bank of Japan Notes (A)	All Banks' Loans (B)	Bank of Japan Notes (C)	All Banks' Loans (D)	C/A	D/B
1935 ..	1,322	8,844	1,767	9,081	133.6	102.6
36 ..	1,423	9,237	1,866	9,505	131.1	102.9
37 ..	1,709	10,575	2,305	11,012	134.8	104.1
38 ..	2,095	11,507	2,755	12,223	131.5	106.2
39 ..	2,634	13,735	3,679	15,038	139.6	109.4
40 ..	3,604	17,074	4,777	18,371	132.5	107.5
1947 ..	156,417	134,709	219,142	168,243	140.1	124.8
48 ..	262,112	291,189	355,280	381,348	135.5	130.9
49 ..	298,202	563,353	355,312	679,052	119.1	120.5

c. Necessity of Accelerating Import

As we have seen, at the very time when an expansion of currency and credit is inevitable in this country, the requirements of increased production due to the Korean Conflict are coinciding with an expansion of exports. Under these circumstances, what is most feared in these days as a factor in the recurrence of inflation is whether or not there may arise a shortage of producers' and consumers' goods owing to the delay or difficulty of importation. As is indicated by Table 2, while exports have taken a turn for the better, imports are growing worse and worse. Up to June, imports (including aid imports) were in excess of exports; but from July onward more goods were exported than imported. The fact is that, while foreign currencies are being acquired, this acquisition is not effectively reflected in imports. To take the month of August, there was such a heavy decline in imports that their amount fell to about 50% of that at the beginning of this year. If this state of affairs continued, there would be an unavoidable diminution in the production to meet the domestic demand, let alone the production whose expansion is necessary for our cooperation with the United Nations. From this angle, the fear of a recurrence of inflation is not necessarily groundless. For example, on the one hand there are such internal factors as payments receivable for supplies to the United Nations forces and for exports, and this at the very time when this country sees a seasonal expansion of currency as has been mentioned above. On the other hand, there is the possibility of a delay in importation. If these causes come to pass, it will not only bring about an unbalance between commodities and currency, but will also give rise to speculative transactions. The monetary measures for importation have fortunately been settled thanks to the sagacity and goodwill of the GHQ authorities. At the same time, it is to be earnestly wished that they may favor us with greater guidance in the matter of further expanding our foreign trade as a whole.

d. Over-Loan Situation

In monetary affairs, what is regarded as the greatest question of the moment is the fact that loans made by banks show a very high percentage on the deposits held by them. It is undeniable that, with the enhancement of economic activities since the outbreak of the Korean Conflict, there has been an increasing tendency toward over-loans. In fact, at the end of August, the total loans made by all the banks in this country amounted to as much as 95% of the total deposits with them—the utmost limit available for making loans. Although such a high percentage is an exceptional one even for postwar Japan, the loan-deposit percentage has necessarily been considerable in the past in this country. One of the reasons is that, with a very meager capacity for the accumulation of private capital and with no widespread existence of such capital as takes a direct part in enterprises, the accumulation of capital has more generally taken the form of indirect investment than of direct investment. This may be due to the fact that the placement of deposits with post offices or with banks is more convenient to the people whose economic knowledge is comparatively scanty. Since the end of the war, at the suggestion of the Occupation authorities, forms of direct investment have been encouraged through such movements as the democratization of securities. Yet, the standard of living of the people is still very low, as high as 61.2 (in August) being the latest available figure of Engel's index (while this index was from 35 to 38 before the war), and the individual people have a very little capacity for accumulating capital. It is, therefore, difficult for them to make direct investments. Moreover, as the Japanese economy is still unstable, the securities market cannot fully become a healthy instrument of investments. Under such circumstances, the people's accumulation of capital, in by far the larger number of cases, takes the form of deposits with post offices or with banks, which give them a greater sense of security.

That the standard of living of the people in postwar Japan is still at such a low level is essentially due to the fact that her economic rehabilitation yet remains to be implemented. At the same time, it must be specially pointed out that the excessive burden of taxation is interfering with the accumulation of capital by our people.

To cite an example in the United States, in the case of an annual income of $10,000, the rate of national taxation under the present law is no more than 21.2% for a single person and 13.6% for a married person with two dependents. Even when a future increase in the tax on account of the Korean Conflict is taken into account, it is calculated that the respective figures will be no higher than 24.4 and 15.9% in 1951.

Table 4 Income Tax in the United States

Net Income	Tax under Present Law		Proposed Tax			
			1950		1951	
	%	$	%	$	%	$
A. Single Person						
5,000	16.2	811	16.9	844	18.9	944
10,000	21.2	2,124	22.0	2,202	24.4	2,436
15,000	26.0	3,894	26.9	4,033	29.7	4,448
20,000	30.4	6,089	31.5	6,302	34.7	6,942
25,000	33.1	8,600	35.6	8,899	39.2	9,796
B. Married Person, No Dependents						
5,000	12.6	631	13.3	663	15.2	760
10,000	16.2	1,621	16.9	1,688	18.9	1,888
15,000	18.9	2,829	19.6	2,937	21.7	8,260
20,000	21,2	4,247	22.0	4,404	24.4	4,872
25,000	23.5	5,877	24.4	6,089	26.9	6,724
C. Married Person, Two Dependents						
5,000	8.0	432	9.1	454	10.4	520
10,000	13.6	1,361	14.2	1,419	15.9	1,592
15,000	16.7	2,512	17.4	2,609	19.8	2,900
20,000	19.4	3,888	20.2	4,032	22.8	4,464
25,000	21.9	5,476	22.7	5,674	25.1	6,268

Table 5 Income Tax in Japan

..Annual Income $	Tax Amount $	%
A. Single Person		
277	34	12.5
833	243	29.1
1,000	326	32.6
1,388	520	37.5
1,944	818	45.9
2,777	1,277	45.9
B. Person with One Dependent		
277	26	9.6
833	226	27.1
1,000	309	30.9
1,388	504	36.3
1,944	800	41.1
2,777	1,258	45.3
C Person with Three Dependents		
277	14	4.8
833	193	23.1
1,000	276	27.6
1,388	471	33.9
1,944	764	39.2
2,777	1,222	43.9

Let us take the standard of living of the Japanese people at one-tenth that of Americans. Then, in the case of an annual income of $1,000 in Japan, the tax rate will be as high as 32.6% for a single person and as much as 27.6% for a married person with three dependents. (Table 5.) When to this are added consolidated income tax and local taxation (made up of 18% of national taxation and of Y800 per capita tax), a person drawing high income has to pay a tax of around 65% of hs income, and the net sum available to him is only about 35% of the income. Under such heavy taxation, it is hopeless to expect an accumulation of private capital.

Under such circumstances, deposits at banks have been in a very adverse condition since the end of the war. Before it, these deposits were from seven to eight times the amount of currency in circulation; at present, they are still even less than three times. On the other hand, there is an enormous demand for funds. Therefore, it is indeed inevitable that there should arise a phenomenon of over-loans.

Under the implementation of the Dodge Line, the tendency toward over-loans has become more pronounced than ever. This is because of an inconsistency in the economic flow of this country. To be more exact, the accumulation of capital has been taken into the hands of the Government through compulsory savings in the shape of the inordinately high taxation mentioned above. But, in the matter of investing such capital, no action is taken in the form of Government investment. On the contrary, the source of funds for supply to industries is principally the bank deposits accumulated on the volition of the people. But, as purchasing power and accumulating power are largely absorbed by that compulsory savings, the remainder is very little, and, as has already been stated, bank deposits do not come to much. Moreover, as will be seen from Table 6, the ratio of such deposits as are capable of long-term employment, which was in the past over 50% of the total deposits, is now only 34%...with the added disadvantage that a pretty large proportion of that percentage is pledged as security for loans, resulting in the very small amount of really long-term deposits. Thus, what small deposits there are lack, both in character and amount, the capacity to meet the industrial demand for funds.

Table 6 Ratios of Components of Total Deposits at All Banks
(as of end of each year)

(in thousand yen)

Year	Current	%	Ordinary	%	Fixed	%	Others	%	Total	%
1930	1,149,281	10.4	1,931,290	17.5	5,499,041	49.8	2,455,515	22.3	11,035,127	100
31	998,379	9.4	1,776,687	16.7	5,333,581	50.5	2,485,952	23.4	10,594,599	,,
32	1,062,317	9.8	1,821,314	16.8	5,193,045	48.3	2,700,577	25.1	10,777,253	,,
33	1,194,081	10.3	1,919,217	16.6	5,557,128	48.4	2,838,855	24.7	11,509,281	,,
34	1,312,011	10.7	1,961,459	16.0	6,043,541	49.7	2,885,696	23.6	12,202,707	,,
35	1,273,182	9.8	2,034,367	15.7	6,594,879	51.2	3,008,263	23.3	12,910,691	,,
46	32,528,466	22.4	63,911,308	44.1	29,279,335	20.3	19,150,173	13.2	144,869,282	,,
47	63,061,079	26.9	105,030,015	44.8	34,051,604	14.6	32,233,444	13.7	234,376,142	,,
48	147,581,392	29.2	209,802,958	41.5	80,438,381	16.0	67,526,656	13.3	505,349,387	,,
49	208,674,970	26.3	264,662,674	33.6	205,697,686	25.9	112,983,654	14.2	792,018,984	,,

(From Japan Statistical Yearbook.)

(Note) "Fixed" deposits include periodical deposits.

e. Gap between Capital Accumulation and Re-investment Methods

The fundamental reason why there should unavoidably arise a phenmenon of over-loans lies in the lack of integration in the relationship between the accumulation of capital and its investment. In order, therefore, that the amount of bank loans can hereafter be normalized, recourse should be had to any of the integrated formulas dealt with below.

If the accumulation of capital is to be enforced through compulsory savings, the capital so accumulated should be invested by a Government organ. If, on the other hand, industrial funds are to be supplied from the capital accumulated by private individuals, the accumulation of capital should also take the form of voluntary accumulation; and for this purpose it is necessary that both corporation tax and individual income tax should be lightened to a large extent, so as to give room for accumulation. Unless that is done, the capital that will flow to the long-term capital market will not be other than speculative capital, and it will be impossible for the securities market to become a healthy market for investment. Immediately after the outbreak of the Korean Conflict, the stock market evinced much activity, but this was after all due to speculative transactions. When the capital for speculation is withdrawn, share values cannot be again become stagnant, despite the military successes of the United Nations forces. As a matter of fact, although share values on the average showed a rise of 18.5% in August over June, the atmosphere underwent a complete change in September, when the rise over the preceding month was no more than 0.3%.

The pronounced paucity of the post-war expansibility of bank deposits is due to the very fact that the people are deprived of their capacity to accumulate capital by the Government through compulsory savings. If the onus of fulfilling the requirements of funds for the economic reconstruction of Japan were to be passed on to the people's savings which are at so tardy a pace, it is but natural that there should be no possibility of putting an end to over-loans. Again, if loans were to be unduly constricted in order to rectify over-loans, it is to be feared that the immediate consequence might be a panic.

As has been mentioned above, the reason why over-loans are unavoidable is because compulsory savings (including those which go into the reserve for the Counterpart Fund) are not utilized by the Government for investment. As of the end of August 1950, the Counterpart Fund reserve amounted to no less than Y75,410,000,000. Of this amount, Y20,634,000,000 represented that which was allowed for use, Y54,775,000,000, that is, as much as 73% of the reserve, remaining unused. As of September 20, the unused proportion still amounted to 71%. True, it is fully recognized that, together with the debt retirement fund in the General Account, the largeness of the unused proportion of the Counterpart Fund reserve has, as a big deflationary factor, well served the purpose of curbing inflation for the past year and a half, but the fact is that the excesses in practice done under such a monetary policy have already resulted in forming the largest cause for over-loans. In order to meet the needs of production expansion arising from the Korean Conflict, it is considered necessary that the negative formula of stabilization hitherto pursued should be switched over to a positive formula of stabilization.

Furthermore, the Deposit Bureau funds derived from the voluntary savings of the people are not allowed to flow to the industrial field (the underwriting of local bonds only being permitted). Thus, the capital accumulated at so much labor by the people is left to remain idle. This is another factor in further intensifying over-loans. Historically in this country, as has already been touched upon, infinitesimal savings form an important part of the accumulation of capital. This fact, as is indicated by Table 7, is also clear from the circumstance that, while in the United States the ratio of post office deposits against bank deposits is only about 2%, in Japan it was about 25% in the past and the latest figure is still as high as 16%. (As of September, the ratio was 18%.) To leave such funds as idle money is bound to have serious effects upon a country which has as little power of accumulating capital as Japan has. Further, it is out of reason in the highest degree that, while on the one hand even accumulated funds are left idle, credit allowances are being made by the Bank of Japan on the other hand.

* * *

It is gratifying to all the peace-loving nations of the world that the United Nations forces have now assumed the offensive all along the front, dealing a crushing blow at the aggressive intentions of the Soviet Union. Undiminished effort should hereafter be made for the preservation of peace, and it is the heartfelt desire of our countrymen to devote our all-out exertions to acting in such a way as to deserve the goodwill of the United States and to bring our cooperation with the United Nations to fruition. For this purpose, it is considered necessary that we should internally achieve political and economic stabilization, further augment our productivity, and be able to play the role of a stabilizing influence in the Far East.

Table 7 Comparison between Bank Deposits and Post Office Deposits

Year	United States (in million dollar) Bank Deposits (A)	Post Office Deposits (B)	B/A %	Japan (in million yen) Bank Deposits (A)	Post Office Deposits (B)	B/A %
1930	58,092	245	0.4	11,035	2,482	22
31	49,509	606	1.2	10,595	2,773	26
32	45,886	902	1.9	10,777	2,768	27
33	42,125	1,209	2.8	11,509	2,932	25
34	49,708	1,207	2.4	12,203	3,074	25
35	55,239	1,201	2.1	12,911	3,248	25
1946	155,902	3,248	2.1	144,869	47,330	33
47	161,865	3,417	2.1	234,376	51,929	22
48	161,248	3,330	2.0	505,349	84,223	17
49	162,890	3,188	1.9	792,018	124,359	16

THE JAPANESE ELECTRIC POWER INDUSTRY

History of the Japanese Electric Power Industry

The origin of the Japanese electric power industry dates back to 1882, just three years after Thomas Edison invented the incandescent electric lamp. Since then this industry has developed to its present size after passing through the following stages:

(1). *Period of inception* (1882-1895):—During this period electric light companies generating thermal-electric power made their debuts in some of the principal cities of Japan.

(2). *Period of growth* (1896-1906):—Along with the development of the Japanese economy during this period, the demand for electric light increased and the industry started on a course of development.

(3). *Period of expansion* (1907-1922): — With the development of hydro-electric power resources under the Japanese Government's policy of promoting the electric power industry, the supply of electric power registered a sharp increase in this period. On the other hand, the demand for motive power for industrial purposes also increased. Under these favorable circumstances, the electric power industry witnessed a phenomenal development.

(4). *Period of competition* (1923-1931):—A sharp increase in electric power equipment was witnessed at the beginning of this period. However, owing to the business depression following the end of World War 1, the supply of electric power became so excessive that very keen sales competition took place among the electric power companies.

(5). *Period of monopolization* (1932-1937): — In order to avoid the disadvantages of such competition, concentration of the electric power enterprises was effected and a cartel was formed among the five dominant electric power companies.

(6). *Period of wartime control* (1938-1945): — During this period the electric power industry was reorganized under government pressure, and electric power control was instituted.

(7). *Postwar period* (1945 *up to the present*):—As explained hereinafter, this is a period in which the electric power industry is about to be freed from state control.

During the course of development of the Japanese electric power industry, changes occurred in both the demand and supply of electric power. With respect to the supply, thermal-electric power generation was changed to hydro-electric power generation with auxiliary use of thermal-electric power, while power transmission was changed from short-distance low voltage to long-distance high voltage and then to super-high voltage connection. With respect to the demand, the use of electricity was extended from household electric lighting to motive power and further to electrolytic and heating processes in the chemical industry.

The percentage of electrification of industrial operations increased from 9.4% in 1906 to 24.8% in 1916. Beginning with the year 1916, the percentage of industrial electrification surpassed that of steam power until it reached 88.9% in 1929. Particularly in the machinery and tools industry and the chemical industry the percentages of electrification reached 97.9% and 92.8%, respectively.

It was in the period before and after World War I that the Japanese electric power industry saw the most phenomenal development. Particularly conspicuous were the accumulation of capital of the electric power companies and the concentration of enterprises by the so-called five largest electric power companies. Of the total capitalization of Y15.7 billion for all Japanese corporations in 1926, Y2.1 billion, or 13.4% of the total, was held by the electric power companies. This amount was the second largest among the total capitalizations for all groups of industries, the largest being held by banks. The combined capital of the five largest electric power companies was Y788 million, or 37.3% of the total capital of all electric power companies.

In order to meet the conspicuous increase in the demand for electricity during and immediately after World War I, all the electric power companies planned to increase their electric power generation capacities, and completed in rapid succession large networks of electric power transmission. With a view to effecting a rapid expansion of their operating scales, the electric power companies either issued bonds or obtained loans from banks. Part of the required funds were obtained by the issuance of foreign currency bonds (see Table I). During the years from 1923 the five largest electric power companies floated abroad loans amounting to US $179.6 million and £8.4 million sterling, which bonds were underwritten by Dillon, Read & Co., Guaranty Trust Company, Lee, Higginson & Co. and others of the United States and the Whitehall Trust Co., Lazard Brothers & Co. and others of Britain. On the Japanese side, the Industrial Bank of Japan, Ltd., the Mitsui Bank, Ltd., the Mitsui Trust Co., Ltd. and others acted as trustees for these bonds. These foreign currency bonds had maturities of 20-25 years, being much longer than the average 7-year maturity of Japanese internal bonds.

Though the service on these foreign currency bonds constituted a very heavy burden to the issuing companies after 1931 owing to the depreciation of yen exchange following the re-imposition of the gold embargo by Japan in 1931, all the companies faithfully lived up to the stipulated terms and conditions. During World War 11, however, part of these foreign currency bonds were assumed by the Japanese Government pursuant to the Law Concerning the Treatment of Foreign Currency Bonds and they still remain as the obligations of the Japanese Government.

Meanwhile, the five largest electric power companies, with financial assistance from banks, competed with one another in expanding their scale of operations. The resulting over-supply of electricity in the depression of the early 1930's, coupled with the heavy burder of their foreign currency obligations, brought about a strain on their business management. In order to cope with the situation, the "Electric Power League" was formed in 1932 through the good offices of a group of banks. This league was a cartel for cooperation through sales agreements, mutual curbing of equipment expansion, etc.

TABLE I

FOREIGN CURRENCY LOANS FLOATED BY JAPANESE ELECTRIC POWER COMPANIES

Year of issue	Title of issue	Issue amount	Amount outstanding as of Dec 31, 1949	Maturity date	Floating market
1923	Tokyo Electric Light Co. 6% Bonds ...	£ 3,000,000	Redeemed	1948	London
1924	Daido Electric Power Co. 7% Bonds ...	$ 15,000,000	$ 1,346,000	1944	New York
1924	Ujigawa Electric Power Co. 7% Bonds ..	$ 14,000,000	$ 864,000	1945	New York
1925	Toho Electric Power Co. 7% Bonds	$ 15,000,000	$ 883,000	1955	New York
1925	Daido Electric Power Co. 6.5% Bonds .	$ 13,500,000	$ 754,500	1950	New York
1925	Tokyo Electric Light Co. 6% Bonds ...	$ 24,000,000	Redeemed	1928	New York
1925	Tokyo Electric Light Co. 6% Bonds ...	£ 600,000	Redeemed	1948	London
1925	Toho Electric Power Co. 5% Bonds	£ 300,000	£ 70,576	1945	London
1926	Toho Electric Power Co. 6% Bonds	$ 10,000,000	Redeemed	1929	New York
1927	Shinyetsu Electric Power Co. 6.5% Bonds	$ 7,650,000	$ 1,253,000	1952	New York
1928	Nippon Electric Power Co. 6.5% Bonds	$ 9,000,000	$ 1,132,000	1953	New York
1928	Tokyo Electric Light Co. 6%. Bonds ...	£ 4,500,000	£ 2,937,100	1953	London
1928	Tokyo Electric Light Co. 6% Bonds ...	$ 70,000,000	$ 18,803,000	1953	New York
1929	Toho Electric Power Co. 6% Bonds ...	$ 11,450,000	Redeemed	1932	New York
1931	Nippon Electric Power Co. 6% Bonds ..	$ 1,500,000	Redeemed	1953	New York

After the formation of the League, the business of the electric power companies took a turn for the better, aided by the gradual business recovery stimulated by the outbreak in 1931 of the Manchurian Incident. On the other hand, however, the effects of the Incident emerged in the form of an intensified control of the electric power industry.

Notwithstanding the stiff opposition of private capitalists to the control of the electric power industry, compulsory control by the Japanese Government was commenced in 1938, the year following the outbreak of the Sino-Japanese Incident by the promulgation of the Electric Power Control Law" and the "Japan Electric Generation and Transmission Company Law." In the following year, the Japanese Government ordered the principal companies to transfer for investment in kind the greater part of their principal thermal-electric power generation and transmission facilities to the Japan Electric Generation and Transmission Company, Ltd., which was established with an authorized capital of Y739 million. Later this company also took over the principal hydro-electric generation facilities of Japan, thereby assuming the exclusive operation of the electric generation and transmission business (wholesaling of electric power) of Japan. In respect to technical and overall adjustment, this form of operation followed the pattern of the super-power system of the United States and the Grid system of Britain, and marked a step toward the efficient use of electric power.

Pursuant to the "Electric Power Supply Control Decree" promulgated in 1942 soon after the outbreak of the Pacific War, the existing electric power supply companies, 70 in all, were consolidated into nine electric power supply companies located in nine districts of the country, the aggregate capital of which companies was approximately Y2.4 billion. By this measure, whereby the electric supply business (retailing of electric power) was reorganized into a regionally monopolistic supply system conducted by a small number of large scale distributors, a structure was set up for the Japanese Government to easily regulate the demand for electricity and to concentrate its use for munitions production.

These nine electric supply companies purchased from the Japan Electric Generation and Transmission Co., Ltd., the bulk of the electricity retailed to consumers. However, the retail electric changes, which constituted the source of income of the electric supply companies, were fixed at a low and an approximately uniform rate throughout the country in conformity with the Japanese Government's lowprice policy. In order to maintain such a uniform retail charge system, a pooling account was established for the Japan Electric Generation and Transmission Co., Ltd., and the electric supply companies. The wholesale charges for the electricity sold by the Japan Electric Generation and Transmission Co., Ltd., to the electric supply companies were determined in such a way as to assure sufficient income for the electric supply companies. In order to cover any deficit which might be incurred by the Japan Electric Generation and Transmission Co., Ltd., under this pricing system, a state compensation system was adopted.

Since the Japanese Government intensified also the control of various other important matters relating to the operation of the electric power industry, these electric supply companies had, in substance, the character of government agencies, though they assumed the form of private companies.

Although the wartime names of the Japan Electric Generation and Transmission Co., Ltd., and the nine electric supply companies have been retained even after Japan's surrender in World War II, these companies have become ordinary companies coming within the purview of the Corporation Law as the result of the postwar abolition of the "Electric Power Supply Control Decree", which had formed the basis for the establishment of these electric supply companies. And not long after the termination of the war, the subsidies to the Japan Electric Generation and Transmission Co., Ltd. were abolished. In substance, therefore, the wartime government agency character of these companies has almost ceased to exist.

Significance of Electric Power to the Japanese Economy

An analysis of the total volume of energy produced by Japan in recent years shows a rise in its production in general. Among the various kinds of energy, coal and electric power constitute two mainstays, accounting consistently for more than 80% of the total energy consumed annually in recent years. For example, of the total volume consumed in 1947, coal accounted for 43.5% and electricity 40.0%, a total of 83.5%.

TABLE II

CONSUMPTION OF VARIOUS KINDS OF ENERGY IN TERMS OF COAL (6,500 coal/kg)

(In 1,000 metric tons)

Year	Coal	Lignite	Petroleum	Firewood	Charcoal	Electricity	(Of which thermal-electric power)	Total
1930-34 average	33,976	64	3,683	5,999	2,071	10,687	(2,395)	56,480
	(60.2)	(0.0)	(6.5)	(10.6)	(3.7)	(19.0)	(4.2)	(100)
1935	42,707	59	5,420	6,199	2,363	12,797	(4,444)	69,595
	(61.5)	(0.0)	(7.8)	(8.9)	(3.4)	(18.4)	(6.4)	(100)
1936	46,920	59	5,192	5,925	2,238	14,844	(3,151)	75,178
	(62.5)	(0.0)	(6.9)	(7.9)	(3.0)	(19.7)	(4.2)	(100)
1937	50,935	65	6,904	7,054	2,436	15,650	(5,949)	83,004
	(61.4)	(0.0)	(8.3)	(8.5)	(2.9)	(18.9)	(7.2)	(100)
1942	56,639	865	2,354	7,557	2,816	19,300	(7,030)	89,531
	(63.3)	(1.0)	(2.6)	(8.4)	(3.1)	(21.6)	(7.8)	(100)
1946	17,041	1,292	1,036	3,637	1,567	20,580	(880)	45,153
	(37.7)	(2.9)	(2.3)	(8.1)	(3.5)	(45.5)	(1.9)	(100)
1947	22,750	1,645	1,877	3,470	1,660	20,850	(1,939)	52,252
	(43.5)	(3.1)	(3.6)	(6.6)	(3.2)	(40.0)	(3.7)	(100)

Note: Figures in parentheses indicate percentages.

As to the question of to what extent Japan can depend on coal for the supply of energy in the future, Japan's coal-beds are of new formation and are qualitatively deficient in heavy coking coal and highgrade anthracite coal. Owing to the unfavorable natural conditions, such as thickness, dip, etc., of Japan's coal-beds and also to their reckless mining in the past, the number of favorably operated mines is not large and coal mining operations are now conducted at deep depths. It follows that the production cost of Japanese coal is higher than the world level.

To cite an example from ordinary coal, the production cost of Japanese coal is about $8-10 per ton as compared with about $5-6 per ton for American coal. Since the rationalization of the coal mining industry is greatly impeded by the unfavorable natural conditions of coal mines, as described above, much cannot be expected in the way of reduction of production cost through rationalization.

As for oil resources, it is impossible to place great expectations on them, since Japan's oil resources are so meager that in the past she has had to depend on imports to the extent of 90% of her total requirements. Firewood, charcoal, etc. have hardly any utility value other than for kitchen use.

On the other hand, since Japan's hydraulic power resources are abundant as compared with the other meager resources, and have not been sufficiently developed, much expectation can be placed on this source of power. The total resources of hydraulic power are estimated at a maximum capacity of 20 million KW in terms of electric power, of which only a maximum capacity of some 6.5 million KW of electricity has been already developed. Since there remain considerable reserve resources for development, it may be said that electric power will be the most important source of power in Japan in the future.

TABLE III

HYDRO-ELECTRIC POWER RESOURCES OF JAPAN, MARCH 31, 1950

(Capacity in 1,000 KW)

District	Developed resources No. of spots	Developed resources Maximum generating capacity	Developed resources Normal generating capacity	Undeveloped resources No. of spots	Undeveloped resources Maximum generating capacity	Undeveloped resources Normal generating capacity	Total resources No. of spots	Total resources Maximum generating capacity	Total resources Normal generating capacity
Hokkaido	52	284.9	126.8	155	970.4	533.0	207	1,255.3	659.9
Tohoku	174	880.0	398.1	407	3,216.0	1,647.1	581	4,096.0	2,045.3
Kanto	84	559.1	286.0	106	1,265.1	761.7	190	1,824.3	1,048.0
Chubu	461	3,570.3	1,534.3	550	5,261.5	2,769.7	1,011	8,831.9	39,743.5
Kinki	61	183.6	85.3	123	706.6	242.0	184	890.2	327.3
Chugoko	60	312,4	110.8	160	763.2	358.2	220	1,075.6	469.1
Shikoku	54	240.6	73.0	87	649.7	245.9	141	890.3	318.9
Kyushu	116	534.5	214.2	119	641.5	384.6	235	1,176.1	598.8
Total for the whole country	1,064	6,565.8	2,828.9	1,707	13,474.3	6,942.6	2,771	20,040.1	9,771.6

Note: Capacities of less than 300 KW for "Developed resources" and of less than 1,000 KW for "Undeveloped resources" are excluded

Present Demand and Supply of Electric Power and Projects for the Development of Electric Power Resources

Present Demand and Supply of Electric Power: Reasons for its Stringency.—The electric power generation facilities owned by the Japanese electric power companies as of March 1949 had a maximum generating capacity of 8.9 million KW (of which 68% was hydro-electric power and 32% thermal-electric power), being 206% of the 1930-34 average of 4.3 million KW. The volume of generated electric power, too, quickly recovered from the sharp fall in the immediate postsurrender period and reached in 1949 37.5 billion KWH which was 223% of the 1930-34 average of 16.8 billion KWH and surpassed the 1943 peak.

However, since the actual supplying capacity in the drought season is some 4.3 million KW against the actual demand for electric power of approximately 5.5 million KW, there is a shortage of power supply to the extent of about 1.2 million KW.

The stringent supply of electricity, despite the fact that the index number of industrial production at the end of April 1950 was only about 83.4% of the 1933-35 average, is attributable to the following three factors: Firstly, the Japanese manufacturing industries have turned to electricity as the source of energy in view of the high price, shortage and qualitative deterioration of other fuel resources Secondly, the number of units of electricity required to produce a unit of product has increased owing to the reduced rate of operation of plants and the qualitative deterioration of raw materials used. Thirdly, the greatest factor is found in the development of industries which use a large volume of electricity. According to Table VI showing the electricity consumption in 1949 by industrial groups, the metal, machinery and tools, chemical and mining industries consumed more than their respective 1930-34 average consumptions, while the spinning, ceramic and other industries and petty power purchasers consumed less.

TABLE IV

ELECTRIC POWER SUPPLY FACILITIES OF JAPAN

(Maximum generating capacity in 1,000 KW)

At end of year or month	For use by others Hydro-electric power	For use by others Thermal-electric power	For use by others Total	For use by others Index number	For own use Hydro-electric power	For own use Thermal-electric power	For own use Total	For own use Index number	Total capacity Hydro-electric power	Total capacity Thermal-electric power	Total capacity Total	Total capacity Index number
1930-34 average	2,991	1,338	4,330	100	107	453	560	100	3,099	1,791	4,890	100
1935	3,309	1,828	5,137	119	73	546	1,320	236	3,382	2,374	6,457	132
March 1949	6,072	2,840	8,912	206	370	1,140	1,519	271	6,451	8,981	10,432	213

TABLE V

VOLUME OF ELECTRIC POWER GENERATED BY ELECTRIC POWER COMPANIES

(In millions of KWH)

Fiscal year	Hydro-electric power	Index number	Thermal-electric power	Index number	Total	Index number
1930-34 average	14,594	100	2,217	100	16,811	100
1935	18,556	127	4,254	192	22,760	135
1948	31,729	217	2,818	127	34,542	205
1949	34,395	236	3,107	140	37,508	223

Now that it has been found that the increase in the demand for electricity is due primarily to the change in the Japanese industrial structure, it is believed that the stringent supply of electricity will continue in the future also.

Projects for Development of Electric Power

Resources and Their Bottlenecks.—No measure other than the development of electric power resources can fundamentally remedy the current shortage of electric power. Against the existing electric power generating capacity of 8,912,000 KW, the 5-year electric power development plan drawn up by the Japanese Government as a chain of the overall program for the reconstruction of the Japanese economy calls for the construction at 81 spots of hydro-electric power generating plants with a total generating capacity of 1,150,000 KW and of thermal-electric power plants with a total capacity of 463,000 KW by the appropriation of some Y200 billion for equipment funds during the 5 years beginning in 1949. In the year 1953, by which time the above plan is expected to be completed, the year-round total supply will just about match the demand, but even then the supply is expected to be 5.5% short of the demand during the drought season. However, owing to the difficulty of raising funds, the above plan has already been subjected to a substantial cut in the appropriations for 1949, the first year of the plan.

Although the electrice power companies are expected to be able to raise by themselves a maximum of some Y11.4 billion for equipment funds, such funds will be used principally for urgent repair work. It follows that they cannot but turn, as in the previous year, to the United States Aid Counterpart Fund for funds needed to finance the development of new electric power resources. The amount authorized so far for appropriation from the Counterpart Fund to the development of electric power resources is Y14.5 billion. As this amount will barely cover the expenses for continuing the projects started in the preceding year, it is impossible to start new projects planned for this year without additional appropriation. Moreover, it should be noted that there is no prospect of obtaining the scheduled loans from the Counterpart Fund pending the completion of the reorganization of the electric power industry under the

Elimination of Excessive Concentrations of Economic Power Law, which problem is discussed hereinafter.

Before the last war, Japan's electric power generating facilities increased by 200,000-400,000 KW yearly. Even in the period of business depression they increased by about 100,000 KW yearly. In the postwar period, however, the annual increase has been only 50,000-80,000 KW. If, under such circumstances, the development of electric power resources is brought to a standstill, it is feared that the unbalanced demand and supply of electricity will be further aggravated in the near future.

Postwar Operation of the Japanese Electric Power Industry

Electric charges.—During the four years of inflation immediately following Japan's surrender in August 1945, the prices of controlled commodities were revised several times, but in the case of electric charges the rate of increase was kept lower than those of other commodities because (1) it was feared that the boosting of electric charges would affect the prices of all commodities, (2) a strict price control of electricity was more feasible than that of other commodities and (3) there was no likelihood that the low controlled price would drive electricity into the blackmarket or cause a sharp fall in its production.

Although as shown later, the profit basis for the operation of the electric power industry was thereby made insecure, such low electric charges served as a "lever", so to speak, for increasing the output in all lines of industrial production.

At last n 1949 the inflation of Japan was arrested and the prices of commodities followed a levelling-off course. However, in the case of electric charges a raise was effected at the end of last year from the standpoint of rectifying the disparity between the prices of commodities and electric charges.

This electric charge system has not only improved the earning capacity of the electric power industry, but also brought the following changes:

(1) Whereas in the past there were little regional differences in the electric charges because of the pooling account system for the whole country, the revised system has widened the regional differences and brought them close to the respective regional costs of electric power generation. This revision of charges has been made in preparation for the operation of regional selfsupporting companies to be created from the reorganization of the electric power industry, as described in a later section.

(2) Discounts are allowed on electric charges for good power factor demand and high load factor demand. Since this discount system conforms to the real demand situation, it is more rational than the old system.

TABLE VI

DEMAND FOR ELECTRICITY, BY INDUSTRIAL GROUPS

(Volume in million KWH)

	1930-34 average		1949		
Industrial group	Volume of electricity consumed (A)	Percentage of total consumption by all groups	Volume of electricity consumed (B)	Percentage of total consumption by all groups	Percentage of B against A (B/A x 100)
A. Large purchasers of electricity (Over 500 KW)	8,884	62.1%	19,511	61.0%	220%
1. Mining industry ..	1,062	7.4%	2,954	9.2%	278%
Of which coal mining	870	—	2,258	—	—
2. Metal industry ..	875	6.1%	3,565	11.2%	408%
Of which iron & steel	*	—	2,316	—	—
3. Machinery & tools industry	190	1.3%	956	3.0%	504%
4. Chemical industry	3,009	21.0%	7,487	23.4%	250%
Of which ammonium sulphate ...	1,450	—	2,534	—	—
Of which carbide & calmium cyanamide	750	—	1,871	—	—
5. Ceramic industry	480	3.4%	624	2.0%	130%
Of which cement	*	—	559	—	—
6. Spinning industry	1,146	8.0%	623	2.0%	54%
7. Others	250	1.7%	211	0.6%	·85%
Total for 1-7	7,012	48.9%	16,424	51.4%	231%
8. Electric railways	1,108	7.8%	1,954	6.1%	177%
9. Public utilities, buildings, offices & others	764	5.4%	1,132	3.5%	148%
B. Purchasers of electricity of less than 500 KW	2,416	16.9%	5,331	16.6%	220%
C. Electric light and electric heat for households	3,000	21.0%	7,149	22.4%	239%
Grand total	14,300	100.0%	31,992	100.0%	224%

TABLE VII

OFFICIAL PRICES OF ELECTRICITY AND COAL IN THE POSTWAR PERIOD

	Electricity			Coal §		
Year or month	Large Consumption † Price	Small Consumption ‡ Price	General price index for electricity	Price (per ton)	Index	General price index for all items (Average of 309 items) ¶
	Y	Y		Y		
1934-36 average	*	0.42	100	16.05**	100	100
August 1947	38.88	97.00	2,290	1,478.85	8,910	5,964
July 1948	118.38	292.00	6,948	3,835.31	23,596	18,439
August 1949	132.68	326.00	7,777	4,180.90	25,188	20.757
May 1950	165.40	455.28	9.449	4,530.00**	25,705	22,184

§ Ordinary coal lumps produced in Kyushu. The prices marked ** are free prices before the establishment of controlled prices or after abolition.

† Large consumption: 1,000 KW or 200,000 KWH. The price is for 100 KWH in the case of monthly consumption.

‡ Small consumption: 40 KW or 2,500 KWH. The price is for 100 KWH in the case of monthly consumption.

¶ Wholesale price index in Tokyo (Survey by the Bank of Japan).

* No record.

Financial Condition of the Electric Power Industry.—As stated already, during the inflation period following World War II, electric charges in Japan were always kept lower than the general price level of ordinary commodities. Since the depreciation provisions for operating assets were extremely inadequate because they were calculated on the basis of the low prewar book values of such assets, despite the progress of inflation, it was virtually impossible for the industry to maintain or renovate electric power facilities with the small earnings from such low electric charges. In addition, the sharp increase in the demand for electricity due to its relatively lower cost as compared with that of other thermal sources of motive power, obliged the electric power companies to operate, without any repairs, their already overworked facilities or facilities which had been urgently installed and inadequately cared for during the wartime, with the result that breakdowns frequently occurred, especially during the winter drought season.

In order to cope with this situation, loans to finance the urgent repair and improvement of electric power facilities were granted by the Reconversion Finance Bank, which was set up in 1947. Likewise, city banks were required to make preferential loans to electric power companies. As a result, the supply of electricity began to increase. Since, as stated above, the electric power companies depended chiefly on loans for the rehabilitation of their facilities, the ratio of their liabilities to the net worth became very high.

This difficult financial position of the electric power companies continued thereafter, but with the adoption of various rationalization measures for eliminating wasteful expenses and also the hiking of electric charges several times, especially the revision at the end of last year, which reduced the disparity between the electric charges and other commodity prices, the profit and loss position of the electric power companies improved so much that in the semiannual term ending March 31, 1950 all of them earned profits sufficient to cover 8% p.a. dividends, though actually no dividend has been declared.

Problems Confronting the Electric Power Industry

Revaluation of Operating Assets.—Now that inflation has been arrested, most of the Japanese companies will have revalued their assets by August 31, 1950 at the latest with a view to avoiding tax on the nominal profits that would arise from insufficient allowance for depreciation of assets calculated on the basis of their low book values and to maintaining adequate operating assets and putting the management of enterprises on a sound basis. However, in the case of the electric power companies, the revaluation of their assets will be deferred until such time as the pending reorganization of the electric power industry is completed. Notwithstanding the fact that the depreciation charges on fixed assets should constitute a high percentage (12% in the prewar period) of the total cost of power companies in view of the large size of their fixed assets, the actual amount of provisions for depreciation has hitherto been small (about 1.9% of the total cost) because the greater portion of their assets were fixed assets constructed in the prewar period and therefore booked at their prewar low values. Such being the case, the revaluation of assets is of particularly important significance to the electric power companies.

The book values of the fixed assets of the Japan Electric Generation and Transmission Co., Ltd. and the nine electric power supply companies as of April 1, 1950 amounted to approximately Y34.3 billion, which, when revalued to the maximum limit allowable under the Revaluation Law, would be approximately Y387.1 billion. It is still undecided whether or not such a high multiple revaluation of assets will be made, but on the assumption that such a revaluation will be made and the resulting depreciation charges can be wholly included in the electric charges, the present electric charges would have to be increased by 54.5%. Since the per KWH cost of electricity is Y2.37 under the electric power industry's current annual expenditure of Y53.6 million and annual sales volume of 22.5 billion KWH, the new per KWH cost under the above increased depreciation charges will be about Y3.67 (1.02 cents). Although the electric rates throughout the United States are now on a downward trend because of the increased sales volume of electricity in recent years, the average electric rate charged in 1948 by A-class and B-class American electric power companies was 1.63 cents. A comparison of the Japanese and the American electric rates shows that the Japanese rate is still lower than the latter, even after the revaluation of assets to the above allowable maximum limit. When electric charges with due allowance for depreciation on the basis of the revalued assets are put into effect, the Japanese electric power industry will be able to revert to its prewar (1930-34) normal status.

Problems of the Reorganization of the Electric Power Industry.—Ever since the Japan Electric Generation and Transmission Co., Ltd. and the nine electric power supply companies were designated in the early part of 1948 as monopolistic enterprises under the Elimination of Excessive Concentrations of Economic Power Law, diverse reorganization plans have been put forth from the standpoint of democratizing the electric power industry. Of these plans, the most promising plan now pending adoption provides for (1) the dissolution of the existing Japan Electric Generation and Transmission Co., Ltd. and the nine electric power supply companies, (2) the establishment of regional companies for the integrated generation and transmission of electricity in each of the nine districts (Hokkaido, Tohoku, Kanto, Chubu, Hokuriku, Kansai, Chogoku, Shikoku and Kyushu) and (3) the establishment of a Public Utilities Commission after the pattern of the Federal Power Commission of the United States charged with the regulation of public utilities, such as electric power, gas, and other utilities, asd the making of decisions on important matters, such as electric charges, allocation of electricity, development of electric power resources, etc.

However, there are many arguments for and against this formula for the reorganization of the electric power industry.

The opponents of the plan argue as follows:

1. Since the Kanto and Kansai districts possess large electric power consuming plants and cities and also modern, large-capacity hydro-electric power generating plants, the companies in these regions will be able to supply electricity more abundantly and more cheaply than the companies in the other districts and consequently they will be able to expand their scale of operations and improve their financial standing. As a result, they will have advantages in the procurement of funds or the development of electric power resources. Inasmuch as this will bring about relative disadvantages to the companies in the other districts, the proposed division on a nine regional basis is inappropriate from the standpoint of fairness.

2. There is fear that the proposed division into nine of the super-high voltage connection system now integrally operated by the Japan Electric Generation and Transmission Co., Ltd. will cause a less satisfactory supplying of electricity than at present.

3. At present the generating cost of thermal-electric power is far higher than that of hydro-electric power. It is feared that if the nine regional companies start operations and adhere to the principle of a self-supporting accounting system, the electric charges in the Kyushu, Hokkaido and other districts which must depend largely on thermal-electric power will rise considerably and in turn lead to higher cost for the proiducts of local industries using such high-cost thermal-electric power, therby rendering it extremely difficult for the local products to compete with products produced in the other districts.

The foregoing arguments against the plan of reorganization have been refuted as follows by the proponents of the plan:

1. Since the Japanese electric power industry is at present divided into the two fields of generation and distribution, there is an ambiguous demarcation of responsibility between the two fields, which fact leads to inefficiency of operation of the industry as a whole. In order to solve the numerous problems now confronting the electric power industry, it is imperative that the Japan Electric Generation and Transmission Co., Ltd., a gigantic organization of a nationwide scale, be dissolved and replaced by regional electric power companies carrying on integrated operations in both generation and distribution on an appropriate scale in each of the nine districts. This will clarify the seat of managerial responsibility and provide incentive to the electric power companies for achieving efficiency of operation and service. A nine-company division is best fitted for the attainment of this objective.

2. It is by no means difficult to adjust the regional differences in electric charges in such a way as will not adversely affect the existing local industries of each district.

3. Though the inter-regional accommodation of electricity may be impeded to some degree under the new setup, profits from the rationalization of operation will more than offset this disadvantage.

As stated above, there are pros and cons in connection with the proposed reorganization plan and some time may be required for the settlement of the issue.

However, as long as this reorganization problem remains unsolved, the electric power industry will be in a state of insecurity because, in the absence of a solution, it is difficult for the electric power companies to raise urgently needed funds for their development projects or to revalue their operating assets. This inability to revalue the assets in turn renders it difficult for the electric power companies to establish a sound basis for management through the determination of appropriate electric charges. In view of these circumstances, an early solution of the reorganization problem is highly desirable.

Conclusion.—Thus the problems of enterprise reorganization and revaluation of assets are for the time being big problems of the electric power industry, but no less important is the question of the procurement of funds required for the development and expansion of electric power facilities. As the former two problems are expected to be settled before long, the latter will become the biggest problem thereafter.

Although the development and expansion of electric power resources are being carried out at present chiefly with the US Aid Counterpart Fund, yet such grant of loans cannot be expected to be continued for many years to come. Since, in such an event it would be insufficient to depend solely upon the investment of accumulated domestic private capital, various development projects to be financed by foreign capital or investment by the Japanese Government similar to the US Government investment in TVA are being seriously discussed. In any case, the solution of this problem is urgently demanded, for the present bottlenecks in Japan's power resources cannot be overcome except by the development of her electric power resources.

TABLE VIII

OUTLINE OF THE PROPOSED NINE NEW ELECTRIC POWER COMPANIES UNDER THE NINE-COMPANY DIVISION PLAN

Item	Unit	Hokkaido	Tohoku	Kanto	Chubu	Hokuriku	Kansai	Chugoku	Shikoku	Kyushu	Total
Electric power generation facilities :*											
Hydro-electric power	1,000 KW	231.8	808.2	1,406.8	699.6	336.4	1,254.8	318.1	206.8	481.9	5,774.7
Thermal-electric power	,,	56.4	8.0	353.5	298.0	10.0	1,160.5	264.5	80.7	553.4	2,780.3
Total capacity	,,	288.3	816.2	1,760.3	992.6	346.4	2,415.3	582.7	287.5	1,035.4	8,525.0
Percentage for each company		3.4%	9.6%	20.6%	11.6%	4.1%	28.3%	6.8%	3.3%	12.3%	100%
Supply volume of electric power †	million KWH	1,334	3,949	8,048	3,994	2,093	6,887	2,154	1,280	4,450	34,148
Sales volume of electric power	,,	952	2,803	5,743	2,669	1,667	4,440	1,491	877	3,160	23,081
Fixed assets **	million yen	1,426	3,226	6,651	3,266	1,377	7,325	3,530	2,234	5,265	34,304
		4.2%	9.4%	19.4%	9.5%	4.0%	21.4%	10.3%	6.5%	15.3%	100%

* The electric power generation facilities and fixed assets are as of March 31, 1950.

† The supply and sales volumes of electric power are based on the 1950 fiscal year demand-supply plan.

THE JAPANESE COTTON INDUSTRY

In Japan where the development of capitalistic economy started later than in other countries of the world, the initial development of industries centered around the light industries, especially the cotton industry, and their development proceeded at a very rapid tempo. Particularly Japanese spinners' efforts to rationalize their cotton spinning operations during the business depression after 1930 proved so successful that during the period 1934 to 1937 Japan's cotton cloth exports exceeded 2.5 billion sq. yds. annually and Japanese cotton textiles put up stiff competition in the overseas market with the cotton textiles manufactured by advanced cotton spinning countries, especially Britain. Thus, before World War II the Japanese cotton industry came to hold a predominant position in the world's cotton industry. Such a prosperity of the Japanese cotton industry in the past, however, completely faded away during World War II, when the spindleage was reduced to one-third of the prewar level, the current spindleage being less than four million. With the recognition of the importance of the cotton industry as an export industry for the reconstruction of the postwar Japanese economy, the Japanese cotton industry has been rehabilitated and has become one of the representative Japanese industries. It is now the most rationalized of all Japanese industries and is one of the few Japanese industries which can stand international competition.

Although the Japanese cotton industry holds a key position in the Japanese economy, yet it contains in itself the following characteristics and problems: Firstly, the Japanese cotton industry depends very largely upon foreign countries for both the import of raw cotton and the export of finished products and consequently it cannot remain unconcerned with the trends in the other countries. In view of the unsettled world economic conditions in the postwar period due to the slow recovery of the productive capacities of the various countries and the decrease in their volume of foreign trade and in view of the tendency of the backward nations to develop their own domestic cotton industry, it is said that the future recovery of the volume of the world's foreign trade in cotton textiles can best be only 80% of the prewar highest level. Secondly, the Japanese cotton industry depends on American credit for the major supply of raw cotton. These problems remain to be solved in the future, but for the time being there is little likelihood that the key position held by the cotton industry among Japanese industries will be changed.

In 1937, when the productive capacity of the Japanese cotton industry reached its peak, Japan had 11,880,000 spindles, representing 8% of the total world spindleage of 149,475,000 and ranking next to Great Britain and the United States. Looms owned by Japanese mills numbered 333,000, or 11% of the 3,078,000 looms for the entire world, ranking next to the United States and Great Britain. No increase in equipment was made since then, but the predominant position held by the Japanese cotton industry in the world's cotton industry during the period around 1935 underwent a complete change as a result of World War II. In the face of the critical war situation after 1942, the Japanese cotton industry was compelled not only to curb its production but also to deliver its equipment as scrap for war purposes, with the result that a sharp decrease in equipment occurred, until this country had no more than 2,005,000 spindles in August 1945, when the war came to a close.

In February 1947 SCAP set the interim goal for the restoration of the Japanese spindleage at four million and approved the increased installation of equipment to achieve this goal. With this approval, the restoration of the Japanese cotton industry was carried out, until by June 1950 the spinning and weaving facilities were increased to 3,851,000 spindles and 224,132 looms, of which 50,085 looms were held by companies carrying on both spinning and weaving and 174,074 looms by those engaged exclusively in weaving (see Table IV). Compared with 1937 when the Japanese cotton industry was at the zenith of prosperity, June 1950 showed decreases to 32% and 66% in spindles and looms, respectively.

In consequence of such decreases in cotton mill equipment, the outputs of cotton yarn and cloth have been considerably less in the postwar period than in the prewar period. Although cotton production steadily recovered in 1949, yet the outputs of cotton yarn and cotton cloth were only 22% and 21%, respectively, of those in 1937 (see Table I).

TABLE I

POSTWAR OUTPUTS OF COTTON YARN AND CLOTH

Year	Cotton yarn (In 1,000 lbs.)	Index number	Cotton textiles (In 1,000 sq. yds.)	Index number
1937	1,586,480	100	4,826,000	100
1847	266,374	17	662,271	13
1948	273,393	17	924,047	17
1949	345,717	22	984,802	21

Along with the decrease in the outputs of cotton yarn and cloth, the consumption of raw cotton also decreased as compared with the prewar level (see Table II). The volume consumed in 1949 was 22% of the 1937 volume, showing the same percentage of decrease as the output. However, a review of the consumption of raw cotton by types shows that there has been recently a considerable difference from the prewar consumption. Whereas in 1937 the consumption of Indian cotton was the largest of all types of cotton consumed by Japan, followed by American cotton, the latter has of late constituted an overwhelming portion of the raw cotton consumed by the Japanese cotton industry. This use of American cotton instead of Indian cotton is due not to any particular preference for American cotton, but rather to such external causes as restriction of payments in foreign currencies and Japan's dependence on the US Aid Counterpart Fund for raw cotton purchase funds.

TABLE II

CONSUMPTION OF RAW COTTON

Year	Total consumption		American cotton		Indian cotton		Other cotton	
	Volume (In 1,000 lbs.)	Percentage	Volume (In 1,000 lbs.)	Percentage	Volume (In 1,000 lbs.)	Percentage	Volume (In 1,000 lbs.)	Percentage
1937	1,846,066	100%	698,502	38%	810,997	44%	336,567	18%
1947	313,210	100%	301,149	97%	3,065	1%	8,996	2%
1948	318,351	100%	219,774	69%	86,718	27%	11,859	3%
1949	398,132	100%	318,217	80%	60,517	15%	19,398	5%

Note: In the figures for 1947 and thereafter, Indian cotton and Pakistan cotton are included together as Indian cotton.

Position of the Cotton Industry among Japanese Industries

In view of the wartime and postwar development of the metal, machine-tools and chemical industries, the cotton industry does not now hold among the manufacturing industries of Japan such a predominant position as it did in prewar days in respect to the volume of production and number of employees.

The reason why the cotton industry is nevertheless regarded as a very important industry in the Japanese economy is that it plays a great role in Japan's balance of trade. Despite the sharp contraction of the cotton industry in the postwar period, the industry accounts for almost the same percentage of exports as in the prewar period (see Table III).

TABLE III

POSITION OF THE COTTON INDUSTRY IN EXPORTS

(In millions of US dollars)

Year	Total exports of Japan (A)	Export of all textiles	Export of cotton goods (B)	Percentage of cotton goods to total exports B/A
1930-34 average	1,737	993	645	37.2%
1947	174	133	86	49.3%
1948	259	157	92	35.7%
1949	511	280	192	37.7%

Of Japan's total exports during the period 1930 to 1934, 37.2% represented export of cotton goods. Likewise, the export of cotton goods constituted 37.7% of the total exports of Japan in 1949. It should be noted, however, that against total exports amounting to US $511 million in 1949, imports amounted to US $902 million, which excess imports over exports, amounting to approximately US $390 million, were covered by such US Funds as GARIOA and EROA Funds. Therfore, in order that Japan may independently maintain her balance of trade, it is a matter of urgent necessity for her to promote exports. Since the cotton industry is the most promising export industry because it has a rich experience as an export industry and is the most rationalized of all Japanese industries, the role to be played by this industry in paying for Japan's imports in order to achieve a self-supporting Japanese economy is indeed great.

Organization of the Cotton Industry and Its Production Conditions

Thirty-five spinning companies constitute the heart of the Japanese cotton industry. Of these, 10 companies hold predominant positions in the industry in scale of operation and volume of production. Usually the spinning companies own cloth-weaving mills for concurrent operations, where about 35% of the cotton yarn produced by their own spinning mills is consumed, the rest being sold as yarn to others specializing in cloth-weaving (about 20%), as well as for export and hosiery manufacturing, etc. Besides these spinning companies which carry on concurrent cloth-weaving business, there are a large number of companies engaged exclusively in cloth-weaving. There are, in addition, many producers of secondary goods, such as hosiery and stitched goods, most of whom do business on a very very small scale. A more detailed description of the Japanese spinning and cloth-weaving businesses follows.

Spinning Business.—As already stated, there are 10 principal spinning companies each owning 200,000 to 500,000 spindles. In the past, these 10 companies merged minor companies and were the only spinning companies which survived the war. Besides them, there came into existence after the war 25 medium-and small-sized spinning companies owning 5,000 to 50,000 spindles each, which capacity cannot stand comparison with that of any of the 10 leading companies (see Table IV). An outline of the principal spinning companies is given in Table V.

TABLE IV

EQUIPMENT CAPACITY OF SPINNING COMPANIES

(As of June 1950)

	No. of companies	No. of spindles	No. of looms
Total for all spinning companies	35	3,851,514	50,085
10 large spinning companies	10	3,510,258	41,717
25 medium- and small-sized companies	25	341,256	8,368

An examination of the geographical distribution of the spinning mills reveals that about a million spindles, or one-fourth of Japan's total spinning facilities, are located in the Kansai district, followed by the Tokai, Shikoku and Hokuriku districts with 500,000 to 700,000 spindles each. Prefectures having more than 200,000 spindles are Toyama, Osaka, Ehime, Wakayama, Okayama, Aichi and Gifu.

TABLE V

OUTLINE OF THE TEN PRINCIPAL SPINNING COMPANIES

Name of company	Capital stock (In millions of yen)	No. of spinning mills	No. of Spindles	No. of looms	No. of mills carrying on concurrent operations
Dai Nippon Spinning Co., Ltd.	1,050	8	462,532	6,525	7 woollen mills, 1 synthetic fiber mill, 4 silk mills, 6 processing mills, 2 stitching mills and 1 hosiery mill.
Toyo Spinning Co., Ltd. ..	1,400	16	523,192	7,140	7 Woollen mills, [illegible] synthetic fiber mills. 2 processing mills, 1 silk spinning mill and 1 hosiery mill.
Shikishima Spinning Co., Ltd.	400	13	373,644	2,897	1 processing mill
Daiwa Spinning Co., Ltd. ..	480	7	368,016	4,632	
Kurashiki Spinning Co., Ltd.	500	7	315,852	3,045	1 Woollen mill, 3 processing mills and 1 hosiery mill.
Kureha Spinning Co., Ltd.	700	6	429,840	3,912	1 Woollen mill and 1 processing mill
Kanegafuchi Spinning Co., Ltd.	1,630	14	403,906	5,854	7 woollen mills, 10 silk reeling mills, 7 silk spinning and silk textile mills, 1 processing mill and 4 other mills.
Fuji Spinning Co., Ltd., ..	500	6	323,300	2,887	1 synthetic fiber mill, 2 silk spinning mills and 1 processing mill
Nisshin Spinning Co., Ltd.	260	7	284,016	4,149	1 processing mill, 2 stitching mills, 1 hosiery mill and 1 other mill.
Nitto Spinning Co., Ltd. ..	600	8	181,048	2,313	1 synthetic fiber mill, 2 silk spinning and silk textile mills, 1 processing mill and 2 other mills.

Notes: 1. The figures for spindles and looms are based on the plan for the restoration of four-million spindles.

2. The capital stocks, number of mills and number of mills carrying on concurrent operations are given as of June 30. 1950.

Remarks: Principal among the medium-and small-sized spinning companies are Toyota Automobile Industry Co., Ltd. (55,000 spindles), Kowa Spinning Co., Ltd. (55,000 spindles) and Teikoku Industrial Co., Ltd. (32,400 spindles).

Such a geographical distribution of mills makes Osaka the center of transactions in cotton goods.

As shown in Table I, cotton yarn production has increased year by year along with the gradual increase in raw cotton import and the improvement of the export markets. The average monthly cotton yarn output of 10,765,000 lbs. in 1946 increased to 22,196,000 lbs. in 1947, 22,782,000 lbs. in 1948 and 28,810,000 lbs. in 1949. Stimulated by increased exports this year, the average monthly output increased to 37,187,000 lbs. during the January-June period this year. Of the total cotton yarn output for the period March 1949 to February 1950, 65% was intended for export and 35% for domestic sale. Not only has the output increased but the average spinning count has been changed this year to Count 27 as compared with Counts 25-26 in 1948. As a result, the operating rate of the spinning industry, which was 64% in January 1949, 77% in June 1949 and 88% at the end of 1949, rose to 97% in June 1950. The working efficiency which had conspicuously declined after the war's end has correspondingly improved. During the 1930-34 period an average of 11.33 persons were required for manufacturing a bale of Count 20 cotton yarn, but in 1948 15 to 18 employees were required for doing the same amount of work. In April this year the number of workers required was reduced to the prewar level of 10.97 employees per bale.

Cloth-weaving Business. — The business may be classified roughly into the two categories of (1) cloth-weaving carried on by spinning companies as concurrent operations and (2) cloth-weaving carried on by weaving companies as exclusive operations. The spinning companies concurrently carrying on cloth-weaving have 82 mills and 50,000 looms, with approximately 32,000 employees. These mills are large-scale, rationalized mills, with high productive efficiency, each having about 600 looms on an average. On the other hand, the companies engaged exclusively in cloth-weaving outnumber the former, owning about 5,500 mills and 174,000 looms, with 78,600 employees. However, such exclusive cloth-weaving business is operated by medium and small sized companies, each mill owning about 30 looms on an average.

Cloth-weaving carried on as concurrent operations is attached to each plant of the spinning companies. The Sennan district (southern part of Osaka Prefecture), the Chita district (southern part of Aichi Prefecture), and the Enshu district (western part of Shizuoka Prefecture) are the three principal cloth-weaving centers of Japan, where one-half of the total number of looms in Japan are installed. In other districts also, a good many cloth-weaving companies are concentrated in comparatively small areas. Since these companies which specialize in cloth-weaving are all very small in scale and carry on weaving only, sending the woven cloth to specialists for processing and dyeing, their mills are concentrated in certain areas from the necessity of division of labor.

In 1949 Japan's cotton cloth output reached 981,796,000 yards, of which 514,821,000 yards (52% of the total output) were made by spinning companies carrying on cloth-weaving as concurrent operations. The greater of this output comprised export goods, consisting mainly of chop cotton cloth, and only 4% of the output was intended for domestic sale. Of the 466,975,000 sq. yds. produced by companies specializing in cloth-weaving, the greater portion constituted export goods, with about 40% for domestic sale. It should be added, however, that these companies specializing in cloth-weaving accounted for about 90% of the cotton cloth produced for domestic sale. As a result, of the total cotton cloth output in 1949 about 80% comprised cotton cloth for export and about 20% cotton cloth for domestic sale. It can be seen from this fact that great stress is placed on the production of cotton cloth for export.

In consequence of the promotion of export trade, there is a tendency for orders to be concentrated in those spinning and weaving companies which produce chop goods, with the result that the production of cotton yarn for domestic sale is delayed. Such a tendency affects the operation rates of both types of production. Whereas the operating rate of 70% level attained in the first half of 1949 by companies carrying on both spinning and cloth-weaving rose to over 80% at the end of the year and further to 92% recently, the operating rate of companies specializing in cloth-weaving generally stood at the 40% level in 1949 and has not yet reached 60% even lately. Under such circumstances, small-scale companies are finding it rather difficult to keep their business going.

Operating Condition.—Of all Japanese companies, the cotton spinning companies have had the best operating results and their recent business results have improved every fiscal term. Their average profit rate for the latter half of 1949 was 10% per annum, and the profit rate for the first half of this year is expected to rise to 16% per annum. This is attributable to the recent brisk export trade and the successful reduction of production cost through higher operating rates and the progress of rationalization. However, the spinning companies owe substantial amounts of loans for postwar rehabilitation of mills and for raw rotton purchase. Since they will also need large amounts of capital funds for expanding their equipment in the future, they are striving to improve their financial position by maintaining a very high rate of undivided profits for some time to come.

In spite of such high rate of undivided profits, most of the spinning companies were able to declare high rates of dividends ranging from 15% to 30% per annum, or an average of 20% to 25%. The cotton spinning industry is one of those industries which yield the highest rates of dividends among Japanese industries. The high earnings of spinning companies, coupled with the improvement of their operations, have helped to keep their share prices at a high level, the average share price of the 10 largest spinning companies in June 1950 being Y118 against the average share price of Y66 for the principal listed stocks.

Labor Situation in the Cotton Spinning Industry

The employees engaged in the cotton spinning industry as of May 1950 numbered 59,517, of which 6,245 were males and 53,272 females. Thus female workers constituted some 90% of the total.

The average age of female workers was 20.3 years as of November 1949, a considerable increase over the average of 17.2 in 1935. Such increase in the average age of female workers was due probably to the postwar extension of the years of compulsory education and to the intensified enactment of labor legislations.

In consequence of the wartime contraction of the spinning industry and also the increase in turnover of female workers due to the unstable postwar economic situation, the skill of cotton spinning operatives markedly deteriorated for a time, but it has rapidly recovered since then. Especially the decrease in the turnover of female workers shows an improvement over the prewar situation. The rates of their hiring and retirement, which were 4.7% and 4.3%, respectively, in 1939, fell to 2.5% and 2.9%, respectively, in 1949. As a result, their average length of service, which was 2 years and 4 months as of December 1949, compares favorably with the record in 1935-37, when the spinning industry was at the peak of prosperity. If consideration is taken of the fact that among the present workers few have been working since the wartime and that all the rest have been employed after the end of the war, it is expected that their average length of service will further increase in the future. Such a tendency may be attributed to the improved labor conditions in the spinning industry brought about by postwar labor union movement. For example, even now more than 30% of the female workers are living in dormitories, the facilities of which have been greatly improved. Their wages are on the same average level as that of all other industrial workers, the average being Y4,494 per month for the cotton spinning industry as compared with an average of Y4,615 for all industries. Incidentally, most of the spinning mills are operated at present under a 2-shift system on an 8-hour day basis. Abolition of mid-night work and restriction of overtime work for the workers are provided by various labor legislations.

Export of Cotton Goods

At present the greater part of the Japanese cotton manufactures are sold in the export market. This tendency is expected to remain unchanged in the near future also because the export of cotton goods contributes most toward the increase in balance of trade, which is most essential to Japan at present. However, it should be noted that the export of cotton goods has been made so far by greatly sacrificing the domestic requirements. While the estimated per capita consumption of raw cotton in 1938 was 12.8 lbs., the per capita consumption in 1948 was only 2.4 lbs. The current productive capacity of the Japanese cotton industry is not sufficient to fill both the export and domestic requirements. It is from this standpoint that the question of increased installation of spindles for the cotton industry, as described hereinafter, has recently cropped up.

The exports of Japanese cotton yarn and cloth have sharply increased to 22,389,000 lbs. and 745,787,000 sq. yds., respectively, in 1949, whereby Japan has become the third largest cotton exporting country, ranking next to Britain and the United States (see Table VI).

TABLE VI

EXPORTS OF COTTON YARN AND CLOTH

Year	Cotton cloth (In 1,000 sq. yds.)	Cottton yarn (In 1,000 lbs.)
1935-37 average	2,087,556	53,474
1946	1,936	3,359
1947	377,256	23,881
1948	422,200	9,261
1950 (Jan. to June) .	537,579	14,447

However, a review of both the export markets and the kinds of cotton cloth for export in the postwar period reveals major changes from the prewar period. The prewar annual average exports of 2,088 million sq. yds. of cotton cloth for the three-year period 1935 to 1937 were made principally to British India (17.0% of the total export), the Netherlands Indies (14.3%) and China (12.8%). Of the total 1949 export of 745 million sq. yds., Britain took 22.9%, followed by Java (10.6%), Pakistan (6.6%), Thailand (6.5%), Aden (6.5)%, Singapore (6.1%), Nigeria (5.6%) and India (4.6%). Most of the cotton cloth exported to Britain comprised grey cloth, which, after being processed in Britain, was reportedly re-exported principally to British Africa. Another change is that Japan has completely lost the Chinese market after the end of the war. This has been due to the change in the political situation of China, which country was before the last war an important market for Japanese cotton goods, importing 300 million sq. yds. annually.

We now turn to the kinds of cotton cloth for export. According to the afore-mentioned prewar 3-year annual average, grey cotton cloth represented 34% of the exported cotton cloth, with bleached and processed cotton cloth comprising a very large portion of cotton cloth exports. However, in 1949 the cotton export situation was reversed, with grey cotton cloth representing 65% of the total cotton cloth exports. This was due partly to the purchase of grey cotton cloth by Britain and partly to the postwar deterioration of Japanese dyeing and processing techniques.

Since the turn of this year, Japanese exports have become so brisk that cotton cloth exports during January-June 1950 reached 537 million sq. yd., an increase of 148 million sq. yds., or some 38%, over the corresponding period of last year. Such brisk exports of cotton cloth were due to purchases by Britain, Indonesia, Pakistan, Burma, etc. during the first half of 1950. In addition, the quantity of cotton cloth already contracted for export exceeds the quantity to be produced by the end of this year. Therefore, if the production of cotton cloth for export proceeds satisfactorily, it appears possible for the Japanese cotton industry to export one billion sq. yds. of cotton cloth this year.

Rehabilitation Problem

Following the issuance in February 1947 of a SCAP directive on the interim rehabilitation of four million spindles for the Japanese spinning industry, the rehabilitation has been carried out smoothly, with the result that the Japanese spinning industry possessed 3,851,000 spindles as of June 1950. However, since the export of commodities other than cotton goods is unsatisfactory, it is imperative that the export of cotton goods be promoted in order to increase Japan's trade income. In order to achieve this with the existing equipment, it is clear that the output of cotton goods for domestic consumption must be reduced. In May 1950 a Joint Anglo-American Cotton Mission composed of influential leaders of the cotton industry of the United States and Britain visited Japan and conferred with Japanese cotton spinners. It seems that on this occasion this problem was discussed and a mutual understanding deepened. However, under a SCAP memorandum issued this June to the Ministry of International Trade and Industry, whereby the four million spindleage restriction for the Japanese cotton industry was removed, the Japanese cotton spinners have been authorized to freely increase their spindleage. It is noted, however, that although the equipment restriction has been lifted, the spinning circles of Japan are taking a cautious attitude toward the increase of spindleage in view of the doubtful possibilities for increasing raw cotton imports commensurate with the increased spindleage, as well as the uncertain prospect of the overseas demand for cotton goods. The All Japan Cotton Spinners' Association has made a careful study of this problem from various angles and estimates that the total spindleage will be increased to 4,760,000 by the end of 1951. It is also estimated that the Japanese spinning industry will need 6,060,000 spindles by 1953. As a basis of this computation, it is assumed that (1) the annual supply of cotton yarn needed for domestic requirements will be 351 million lbs. (four lbs. per person for an estimated population of 87,663,000 in 1953) and (2) the total annual export requirements will amount to 416 million lbs., including 1,500 million sq. yds. of cotton cloth and yarn incidental thereto and cotton yarn required for sundry articles for export. All in all, 767 million lbs. of cotton goods (average count 28) are required, for which 1,468,000 bales of American raw cotton, 400,000 bales of Indian and Pakistan raw cotton and 50,000 bales of Egyptian raw cotton, or a total of 1,918,000 bales, will be required. However, this problem depends of course on the developments in the world's cotton industry, and it remains to be seen whether or not the estimates of the volume of raw cotton imports and of the volume of cotton goods exports are correct.

JAPANESE EXPORT PROHIBITION

The following commodities are prohibited to be exported from Japan to China, Hongkong and Macao (according to Cabinet order No. 306, of October 9, 1950) except if special licence is granted:—

1. Ferrous ores and concentrates.
2. Pig Iron.
3. Iron and steel scrap.
4. Ferro-alloys and ferro-alloy scrap.

5. Semi-finished ferrous products in all analysis: 1) ingot, 2) bloom, 3) billet, 4) slab, 5) sheet bar, 6) skelp, 7) tin bar, 8) tube round.

6. Primary and secondary steeel products (rolled, forged, cast, drawn and extruded) as hereunder; 1) steel wire, cable and rope, 2) barbed wire, 3) railway car wheels, tire and axles, 4) railway rails (all sizes), 5) steel welding rods for underwater cutting, 6) steel castings and forgings for marine and railroad equipment, 7) pipes and tubes (seamless and welded) except electrical conduit tubing, 8) tin plate, 9) gilding metal clads, 10) spring steel, plates, rods, etc.

7. Primary and secondary steel products (rolled, cast, forged, drawn, extruded or other) and scrap containing any one or more of the following elements in excess of the percentages indicated below:

Carbon	0.50%	Manganese	0.80%
Silicon	0.80%	Copper	0.40%
Aluminum	0.40%	Nickel	0.30%
Chromium	0.30%	Tungsten	0.15%
Molybdenum	0.15%	Cobalt	0.15%
Titanium	0.15%	Zirconium	0.15%

or any other metallic element 0.15%

8. Non-ferrous ores, concentrates and intermediate products as listed hereunder: 1) ores, 2) concentrates, 3) residues, 4) crude metals, 5) refined metals, 6) scrap (incl. alloys), 7) remelted ingot (incl. alloys), 8) alloys, 9) all materials of uranium, thorium, beryllium, 10) radium.

9. Non-ferrous semi-finished and secondary products as listed hereunder: 1) rolled products such as sheet, tape or strip, 2) extruded products such as bar, rod, pipe or tube, 3) drawn products such as wire, pipe or tube, 4) cast and forged products.

10. Non-ferrous finished products except these as listed hereunder: 1) household kitchen utensils, 2) household hardware, 3) building hardare, 4)miscellaneous adornments for personal use.

11. Coal: 1) coking coal, 2) coal for gas producer use.

12. Coke, metallurgical.

13. Petroleum and petroleum products: 1) crude oil, 2) reference fuels, 3) petroleum products excluding medicinals, 4) additives for lubricants, 5) hydraulic oils containing synthetics, 6) blending agents for aviation gasoline, 7) crude petroleum, 8) motor fuels, 9) diesel oil — all grades, 10) fuel oil, 11) kerosene, 12) lubricating oils and greases.

14. Construction, grading and conveying machinery: 1) excavation, all types except hand, 2) concrete miners over 27 cubic feet capacity, 3) road and surface preparation machinery and equipment including accessories and parts, 4) cranes (all types over 30 ton capacity) 5) dredgers and equipment, 6) power driven conveyors and conveycr belting (all types) including parts and accessories.

15. Mining equipment: 1) power driven hoist, including controls, 2) coal preparation plants, including parts and accessories, 3) floatation equipment, 4) power driven well drilling equipment, including parts and accessories, 5) petroleum equipment, casing and oil line pipe, seamless and welded, and oil well drilling and exploration equipment.

16. Chemical manufacturing equipment; 1) multiple effect evaporators, 2) ammonia oxidation equipment, 3) fractionating columns operating at gauge pressure of less than 50 lbs. per sq. in. or at vacuum of less than 30 m.m. of mercury, 4) stills, all types, 5) reaction kettles, tanks and vats, including autoclaves and digesters, all types and materials, 6) solvent extraction equipment, all types, 7) electric furnaces for manufacture of sodium potassium, phosphorous and calcium carbide, 8) ore burners, 9) driers, all types, 10) hydrogenation equipment designed for operation over 50 psi, 11) nitrators, 12) methanol oxidation equipment, 13) gas liquifying equipment and handling equipment, all types, 14) pressure containers designed for over 300 psi, all types, 15) hydrogen generation or recovery equipment 16) high pressure equipment including vessels, valves, piping, etc. designed to operate over 500 psi, 17)

acid concentration equipment, 18) penicillin and streptomycin plants, including all parts and units, 19) tubes, pipes, bends, unions, couplings, junction boxes, plugs, valves, all type and materials, 20) heat exchangers, 21) storage tanks, drums, etc., lined or unlined, pressure or vacuum for petroleum, and chemicals, 22) crushers, grinders and mills, all types including colloid, 23) horizontal rotary kiln, 24) alkylation thermal or xatalytic cracking, isomerization and hydro-forming equipment, 25) quartz crystals, plates and laboratory and industrial equipment, 26) compressors and pumps delivering at pressure 300 psi or over, 27) spinnerets for fibers, 28) rayon manufacturing plants and component parts, 29) firebrick, 30) high alumina bricks (A1203), 31) high temperature refractory cements, 32) refractories, 33) natural and artificial graphite crucibles, 34) moulding machines for plastics.

17. Mill, foundry and forging equipment: 1) high tonnage oxygen plants, 2) pressure top equipment, including elements for blast furnace, 3) plate mill and controls; continous strip mills and controls; multi-slide machines, 4) seamless tube mill and controls, 5) foil rolling mills, 6) blooming mills, 7) centrifugal casting machine, 8) forging machines, all types, 9) casting machines, all type, 10) bending and forming machines, all types, 11) infra-red and induction heat treating furnaces, industrial furnaces equipment including induction heating, 12) die sinking and die casting machines, all types, 13) wire and tube drawing machines, .015 in. or less, 14) moulding machines, all types, 15) core machines, 16) forging rolls and swaging machines, 17) sintering equipment for metallurgical purposes, 18) cupolas.

18. Machine tools, including combinations, accessories, parts, controls, subassemblies: 1) lathes, all types, 2) drilling machines, including multiple spindle and radial, 3) grinders, all types, 4) milling machines, all types, 5) shaving machines, 6) boring mills, all types, 7) broaching machines, all types, 8) automatic screw machines, including multiple spindle, 9) gear cutting machines, all types, 10) planers, all types, 11) honing and lapping machines, all types, 12) power driven shares, all types,13) power presses and hammers, all types, 14) punching machines, all types, 15) portable machines tools designed to be attached to work, 16) tools incorporating industrial diamonds, carbide and carbide tipped tools, 17) pipe threading and cut-off machines, 18) shapers, all types, 19) profiling machines, 20) power sawing machines, all types, 21) tools, dies, jigs and fixtures, 22) all machines and equipment specially designed for manufacturing firearms or ammunition.

19. Electrical equipment: 1) all motors over 50 HP reversible, including controls, 2) A. C. generators, 3) D. C. generators over 220 volts, 4) power transformers, 5) self contained lighting units, 6) rotary converters, 7) steam, water and gas turbines for electric power generators.

20. Miscellaneous equipment and materials: 1) welding equipment, all types, 2) static and dynamic balancers, 3) turbines, mechanical driving units 100 HP and over, 4) pressure gauges measuring above 100 atm, 5) turbine blowers and exhausters having a compression ratio of 2:1 or better, 6) power driven can-making machines and components, 7) high speed compressors for wind tunnels (800 r.p.m. or over with MACH number 0.7 or over), 8) tire manufacturing plant or component parts, 9) electrostatic and electromagnetic separators, 10) ball and roller bearings and components, 11) equipment specialized for map making and map reproduction, 12) steroscopic plotting and photo-interpreting equipment, 13) packaged air-conditioning units excluding window mount types, 14) graphite and other carbon electrodes, rods, blocks, crucibles, bricks, plates, stoppers, heads, nozzles sleeves, retorts and other manufactured shapes, 15) industrial water treating equipment, 16) automatic control valves, 17) artificial graphite powder and scrap, 18) artificial and natural abrasive grains and grinding wheels and other shapes manufactured thereof, 19) diamonds, dust or powder, and all diamonds suitable for industrial use (including splints and borts), 20) hydraulic oils and fluids, non-inflammable and castor oil bases, 21) asbestos and asbestos products, except asbestos cement pipe, tile and slate, 22) magnesium silicate (steatite).

21. Precision instruments (scientific and testing equipment): 1) precision resistance, impedance, capacitance or inductance bridges and combinations of such (values of 2000 chms and over), 2) precision multimeters, voltmeters, ammeters, ohmmeters and micro-ammeters including portable test types, 3) vacuum pumps, 4) ph meter, indicating type, 5) analytical balances (excluding student types), 6) precision industrial indicating, controlling and/or recording instruments for pressure, flow temperature, humidity, or gas analysis, not elsewhere stated (n.e.s.), 7) cathode ray oscilloscopes, 8) recording oscillographs, n.e.s., 9) jewel bearings including watch jewels separately, 10) optical curve generators, 11) high precision optical glass, 12) optical glass containing rare earth elements, 13) radio transmitting tubes, n.e.s., 14) radio transmitting apparatus, n.e.s., 15) radio receiving tubes, n.e.s., 16) radio receiving sets, communications type, 17) transmitter-receiver tubes, anti-transmitter-receiver tubes and ruggedized tubes, 18) chokes and communications transformers, 19) instrument transformers, 20) mercury power rectifiers, under 10 KVA, 21) hydrophone equipment, 22) refractometers, 23) micro-balances, 1/1000th milligram or under, 24) vacuum tube volt meters, 25) electronic amplifiers, laboratory type, 26) precipitrons, 27) high voltage power tubes, 28) impulse registers or counters (over 20 counts per sec.), 29) vacuum tube manufacturing machinery, 30) metallurgical microscopes, 31) electron microscopes, 32) optical pyrometers, 33) metallographs, 34) diffraction gratings, except student type, 35) electrometers, except student type, 36) spectrographs, 37) spectrum analyzers, 38) vacuum measuring gauges, 39) densitometers, 40) microwave generating equipment, 41) wave guide components: junctions, slotted sections, crystal mounts, rotating joints, probes, adaptors, bands, terminations, clamps, 42) antenna pattern recorders, 43) meteorological sounding balloons 1100 gr. or larger, 44) searchlight filters, orbit, 45) alternating current generators, 400 cycles and above, 46) geophysical instruments for prospecting, 47) echo ranging and radio transmission equipment, 48) laboratory furnaces, 49) radiation detection instruments including components, 50) spectrophotometer and microphotometer laboratory instruments.

22. Transportation Equipment: 1) locomotives parts (all types), 2) railroad cars, parts and equipment, including wheels, couplings, steel types, 3) automatic railway signals, attachments and parts, 4) braking equipment for rolling stock, 5) vehicular, 6) tires and tubes of vehicles, 7) self-propelled vessels (all types) including parts and accessories, 8) non-self-propelled watercraft over 1,500 displacement tons, 9) diesel and engines and parts thereof (separately or as components of machinery or equipment), 10) other internal combustion engines, carburetor type over 50 HP, 11) steam engines including parts and accessories, 12) scotch and watertube boilers and feed-water heaters for engines 300 HP or over, 13) auto parts.

23. Textile equipment, card clothing (all fibers) except rayon manufacturing plants including equipment (see item 16, sub-item 28)

24. Chemicals: 1) aluminum chloride, anhydrous, 2) barium nitrate and barium chromate, 3) calcium and potassium permanganate, 4) hydrogen peroxide (over 50 strength), 5) potassium teetraoxide, 6) nitrates, nitric acid and anhydrous ammonia, 7) phosphorous except red, and phosphoric acid, 8) all persulphates, 9) hydrocyanic acid and all metallic cyanides, 10) sodium peroxide, 11) bromine and compounds (except dyestuffs), 12) hydrazide hydrate and hydrazine, 13) meroury fulminate, lead oxide, lead styphnate, lead thiocyanate, 14) chlorates and perchlorates, 15) sodium (metallic) and potassium (metallic), 16) thallium bromoiodide, 17) titanium teprachloride, 18) vanadium compounds, 19) chromium compounds, except chrome pigments other than chrome green oxide, zinc chromates and lead chromates, 20) toluene, 21) acetone, 22) isopropyl alcohol, 23) dinitrotoluene solids and oils, 24) aniline, 25) benzene, 26) chlorobenzenes and substituted chlorobensenes, except dyestuffs, 27) ethyl benzene, 28) phenyl beta naphthylamine, 29) diphenylamine, ethyl and methyl centralite, other stabilizers for explosives, 30) glycerine, 31) formaldehyde, 32) methanol, 33) naphthalene, 34) nitrobenzenes and substituted nitrobenzenes, except dyestuffs, 35) nitroglycerine and dynamite, 36) xylidine and xylene, 37) ethylene ribromide, 38) dimethylaniline, 39) lauryl alcohol, 40) furfural, 41) hexemethylenetetramine, 42) nitroguanidine, 43) glycols and their compounds, 44) pentaerythritol and derivatives, 45) acetic acid (over 80%) and acetic anhydride, 46) ethyl cellulose, 47) cellulose nitrates, all grades, 48) cellulose purified (dissolving and nitrating grades), 49) rubber compounding agents including accelerators, antioxidants and carbon black, 50) phenol and derivatives, including phenolic resins, molding powders, sheets, rods and tubes, 51) methacrylate resins, molding powders, sheets, rods and tubes, 52) vinyl and vinylidene resins, molding powders, sheets, rods and tubes, 53) acrylic resins, 54) styrene moromer, dichlorostyrene, polystrene, molding powers, sheets, rods and tubes, 55) floatation reagents, synthetic organic: xanthates, amine acetates, dithiophosphates, quaternary ammonium compounds, 56) fluorine compound (except fluorspar), 57) cerium compounds, 58) sulphur, 59) sulphuric acid, 60) calsium carbide, 61) phthalic anhydride & compounds (excluding dyestuffs), 62) para phenylenediamine (including hair dye in pigs of 100 grams or less), 63) polyethylene, 64) silicone high vacuum grease, stopcock greases, both high-vacuum and regulars, 65) teflon and products made from teflon, 66) liquid gum inhibiters for treating petroleum distillates, 67) picrin acid (Trinitrophenol), 68) furfuryl alcohol (furyl carbinol), 69) chlorofluoromethenes (freon) II, 70) tricrasyl phosphate, 71) chiorinated paraffin (including chlorafin) containing 90% or more chlorine, 72) tetrahydrofurfuryl alcohol, 73) diethylhexyl sebacate, 74) hydroquinene, 75) phosphor tungstate; phosphor zinc silicate; phospor zinc silicat-zinc cadmium sulfide, 76) para nitraniline, 77) aminophenol, para type only, 78) nethyl isobutyl ketone (Hexone) HI, 80) cobalt compounds, including pigments and cryers, 81) bismuthate oxide and sodium bismuthate.

25. Manila (abaca) jute and sisal products: 1) fiber, 2) twine, 3) yarn, 4) cord, 5) rope, 6) bags, 7) cloth.

26. Silk cocoons silk waste etc.: 1) silk cocoons, silk worm eggs & silk waste, 2) bourette.

27. Staple foodstuffs and feed: 1) rice, 2) barley, 3) naked barley, 4) wheat and wheat bran, 5) soya beans, 6) flour made of rice and wheat, 7) oats, 8) mixed feeds.

28. Fertilizers, finished and intermediate: crushed phosphate rock, thomas slag, fused phosphate, potassium compounds, ammonium sulphate, ammonium chloride, ammonium phosphate, calcium cyanamide, urea seed meals and cakes, calcium superphosphate, triple superphosphate rock, fine ground phosphate rock, thomas meal, fused phosphate, ground, ammoniated superphosphate, calcium metaphosphate, mixtures of the above listed.

29. Industrial and edible fats and oils except vitamin oil, including but not limited to soyabean oil, rape seed oil, whale (Nagasu) oil, groundnut oil, coconut oil, tallow, palm oil and sesame oil.

30. Tree seeds and plants: 1) Japanese cedar, 2) Japanese cypress, 3) Aka matsu, 4) Kuro matsu, 5) Larch, 6) Ezo matsu, 7) Todo matsu.

31. Wood products: 1) telephone pole, 2) railway sleeper, 3) mining timber, 4) piling logs, 5) softwood (coniferous) logs, including pulpwood, hewn lumber and cants, 6) softwood (coniferous) lumber, including collapsible shooks and planed bored lumber, except for necessary crating for exports, 7) hardwood (broadleaf) logs, including pulpwood, hewn lumber and cants, 8) firewood and gasumaki, except from Tsushima. 9) charcoal.

ECONOMIC REPORTS FROM TAIWAN

Foreign Trade :— Sino-Japanese Trade: In connection with the recently concluded Sino-Japanese trade agreement, the Provincial Government has made the following statement: 1. No quota system will be imposed on imports from Japan for the time being. 2. The Industries and Banking Subcommittee of the Provincial Production Board will be authorized to adopt restrictive measures on imports from Japan whenever deemed necessary; and 3. A study of supply and demand of commodities in Taiwan should be made by local traders in order to avoid over-importing items produced locally.

Import of Foreign-made Cigarettes: Because local production of cigarettes (at present 500 million per month) has fallen short of meeting local requirements of 700 million cigarettes per month, the Provincial Tobacco and Liquor Bureau will continue to import foreign cigarettes during the current month. The decision regarding imports after December 1 will be made later by the Provincial Government.

October Tea Exports: The Taiwan Tea Dealers Guild announced that local exports in October totaled 917 metric tons, an increase of about 196 tons over the total shipped in September. Exports in October comprised the following (figures in metric tons): Black tea, 776 (including 500 tons for South America); Pouchung tea, 44; Oolong tea, 8; green tea, 5; and other teas, 83.

Banking and Finance :—Provincial Note Issue: Provincial authorities announced on November 5 that the new Taiwan Yuan note issue (including both regular and extra note issues) as of October 31 totaled NTY223,391,483 The regular note issue was NTY183,391,483, a decrease of slightly over NTY13,000,000 from the September 30 total, while the amount of the extra note issue of subsidiary notes and coins was NTY40,000,000, a drop of NTY9,000,000 in a month. Gold backing of the regular note issue was reported as consisting of 470,234.573 shih taels of gold (equivalent to 517,825,928 ounces avoirdupois (99.9 fine) valued at US$18,123,907). Backing of the extra note issue continued to consist of trade acceptances, warehouse receipts, and staple commodities held by the Bank of Taiwan as security against loans granted.

New Measures for Extra Note Issue: On November 8 the Executive Yuan approved the Provincial Government's "measures governing the issuance of subsidiary currency," which permits the total issuance of subsidiary notes and coins up to 20 percent of the total note issue outstanding but with no more than half of this subsidiary currency in the form of notes. Thus, on the basis of the total amount of regular and subsidiary note issues outstanding as of October 31 (NTY223,391,483) the new authorized limit of the extra note issue would be about NTY45,000,000 (When the extra note issue of subsidiary currency was first authorized in July 1950, the limit established was NTY50,000,000).

Industry :—Tin and Zinc Production: The National Resources Commission's Taiwan steel plant began installing tin plate manufacturing and zinc plate manufacturing machinery which had been imported from the United States and Japan. Production is scheduled to start in February 1951, with output expected to total 2,000 metric tons tin plate and 1,000 metric tons of zinc plates for next year. Hitherto, requirements of 300 tons of tin plates and 2,000 tons of zinc plates have been met entirely through imports.

Cotton Industry: It was reported that the Taiwan Branch of the National Resources Commission's China Textile Industries Inc. is presently installing 10,000 spindles and 340 looms that were recently imported from Japan. Operations are scheduled to start in December. In order to alleviate the acute local shortage of cotton yarn, the Production Board decided on October 31 to allocate US$700,000 in foreign exchange to the Provincial Supply Board for the import of 2,000 bales from the United States. (In this connection, Economic Cooperation Administration officials distributed 117 bales of cotton yarn through the Taiwan Cotton Textile Manufacturers Association to member mills.)

Commodity Prices :—Little change was noted in the prices of most staple commodities. Rice was selling at NTY0.70 per catty (1.323 pounds).

PHILIPPINE ECONOMIC DEVELOPMENTS

During October, general optimism that the Bell Mission would recommend extension by the United States of large loans and grants for industrial development of the Philippines resulted in the heaviest stock-market advances in a 2-year trading period. Black-market transactions in dollar notes and drafts also reached a new high, with quotations for the dollar ranging from 3.55 pesos to 3.80 pesos near the end of the month. As rumors regarding devaluation of the peso became increasingly widespread owing to these activities, which were interpreted as reflecting a declining confidence in the peso, the Monetary Board of the Central Bank issued a statement of reassurance. Export earnings were increasing, the Bank pointed out, and foreign-exchange reserves had made rapid gains. Reserves as of October 24 reportedly amounted to $350,000,000, a rise of $100,000,00 compared with the country's exchange position on December 8, immediately prior to institution of exchange controls.

The tight cash position of the Government was somewhat eased in October, when it obtained use of the Philippines' 22,000,000-peso deposit with the International Monetary Fund. Back salaries of teachers were then paid to the end of September. Sufficient funds still were not available, however, to continue a number of inportant Government functions, including the rehabilitation of roads. To prevent issuance of Treasury warrants without cash backing, the Senate Blue Ribbon Committee called for drafting of a bill to control effectively Treasury receipts and disbursements. Additionally, to help remedy the Government's overall financial situation, the Acting Secretary of Finance requested provincial city treasurers to remit promptly national revenue collections and submit long overdue reports.

Increases in ceiling prices corresponding to the recent advances in sales taxes were recommended by the Price Administration Board. Importers and wholesalers in particular, according to the Board, do not have sufficient mark-ups on their limited stocks to absorb the new sales taxes and continue to operate at a profit.

Meanwhile, the retail price index of the Department of Commerce advanced for the elevenh consecutive week to the highest point in 21 months.

Total Philippine imports from January through September 1950 amounted to 490,329,559 pesos, compared with 888,431,563 pesos for the like period in 1949, a decrease of approximately 45 percent. Exports, on the other hand, totaled 448,713,775 pesos, as compared with 398,499,404 pesos for the first 9 months of 1949, an increase of 13 percent. Total trade for the first 9 months of 1950 amounted to 939,043,334 pesos, in contrast to 1,286,930,967 pesos for the like period in 1949, a decrease of approximately 27 percent.

Agriculture

Exports of coconut products from January through September aggregated 454,959 long tons of copra, 46,625 long tons of coconut oil, and 59,260 short tons of desiccated coconut. During the like period last year, shipments were 407,017 long tons of copra, 46,160 long tons of cocanut oil, and 47,501 short tons of desiccated coconut. At the end of October, copra price were quoted at 35.5 pesos per hundred kilograms.

Trade sources estimate that exports of centrifugal sugar from the 1950 crop will total 475,000-480,000 short tons, a significant drop compared with the 535,000 tons shipped from the 1949 crop. At the end of August, exports had already reached 437,000 short tons. Milling of the 1951 crop, variously estimated at between 950,000 and 1,050,000 short tons, was scheduled to start at the end of October. Some new-crop sugar, therefore, may be available for export before the close of the year.

Official estimates place the 1950 tobacco crop at 26,500 metric tons, a 20 percent increase over output in 1949. Prices in October continued at the September level, with Isabela leaf quoted at about 150 pesos per bale of 254 pounds.

According to revised estimates, the 1950 rice crop reached 59,228,600 cavans of paddy, from plantings of 2,214,000 hectares (cavan of paddy= about 95 pounds; hectare=2.47 acres). The 1951 crop is forecast on a preliminary basis at 60,500,000 cavans of paddy, from plantings of 2,325,000 hectares. Rice prices rose considerably during October, and at the end of the month Macan second class was selling at 25 pesos per cavan, compared with 21.75 pesos in September.

Motion Picture Situation

Representatives of the four major motion picture studios in the Philippines announced on October 21 that they would cease operations December 1, 1950, and remain closed until adequate raw-film supplies are permitted entry into the country. They threatened to cease activities permanently if authorities do not consider this Filipino industry worth protecting. Supplies will run out by the end of November, the companies state, and they have issued notices to their employees that only necessary personnel will remain to complete pictures under production.

Cessation of operations would throw approximately 10,000 persons out of work and would have a most serious effect on Government revenues. The four companies estimate their film requirements for an annual production of 40 movies approximate $125,000 and states that Government income from the pictures would total 1,875,000 pesos in amusement taxes and 66,750 pesos in sales taxes. In addition, a small number of Philippine movies are exported to Hawaii, the United States, and Guam and are dollar earners.

Use of Fertilizers

In its initial 3-month period of operation, the Fertilizer Administration, sold 44,882 bags of fertilizers to farmers in 28 Provinces. The years of work spent in encouraging farmers to use plant foods are beginning to show results.

A larger volume of sales is expected in the coming crop season, especially among rice farmers, and orders for additional fertilizer materials have been placed abroad. Special credit arrangements are being made, and agricultural supervisors are instructing farmers in application methods.

Jute-Bag Mill

Construction of a new jute-bag plant has been completed. Capacity by January 1951 will include about 16,000,000 bags a year and an unknown quantity of tarpaulin and filter cloth. Indian jute and locally grown jute (or saluyot), maguey, and banana fiber will be used.

Domestic production of saluyot is still insufficient to meet the needs of the mill, which relies on imports from Pakistan and India.

PRODUCTION OF MALAYAN MINES

The total production of tin-ore concentrates for the three months, July to September, this year, shows a decrease as compared with the output during the second quarter. This decrease resulted mainly because fewer dredges were in operation in Selangor. Other factors which contributed to the decrease were that there was a seasonal shortage of water in Perak, and that the high tin price had enabled lower-grade ground to be worked.

During the third quarter, July to September, the output of tin-ore was 19,224 tons, which was 342 tons less than the production for April to June. The total output for the third quarter, however, showed an increase of 624 tons over that produced during the corresponding period of last year. The figures of tin-ore produced during the third quarter were: July 6.762 tons; August 6,336 tons; and September 6,126 tons.

The up-to-date total since January this year of tin-ore produced has now reached 57,817 tons.

The total of tin-ore produced during the third quarter of this year was 14,418 tons, which is 257 tons less than the output for the second quarter of this year. However, it represents an increase of 408 tons over the output produced during the corresponding quarter of last year.

The monthly figures of production for the third quarter of this year were: July 5,071 tons; and September 4,595 tons. The up-to-date total has reached 43,363 tons.

The export of tin-ore concentrates for the third quarter was 19,324 long tons. This represents a decrease of 500 long tons as compared with the figure for the second quarter. The total export of tin-ore concentrates from January to September this year was 58,112 long tons, while the total tin metal content was 43,584 tons. The assay value remained at 75 per cent.

The duty paid on the exports of tin-ore concentrates during the third quarter was $13,080,618, as compared with $20,629,114 for January to July. This brings the total to $33,709,732 for the last nine months.

During the period, the price of tin-metal rose from $306 to $398 per picul in Singapore. Daily fluctuations varied between 25 cents and $20.25. Record high prices of $367.37½ and $421.87½ were reached in July and August. However, at the end of September, the market remained firm.

The total number of tin-mines and dredging units operating in Malaya was: July 696; August 701; and September 703.

Labour employed in tin-mines during July, August and September were 45,702; 45,665; and 45,669 respectively.

By the end of September, there was a net increase of 14 gravel-pump mines in operation. Four dredges were closed down temporarily, of which three were closed to carry out repairs.

There was a marked increase in the production of gold in the Federation during the third quarter of this year, July to September. Production during the third quarter was 4,739 troy ounces, an increase of 391 troy ounces over that of April to June. The figure for the third quarter also represents an increase of 1,352 troy ounces over that produced during the corresponding period of last year. The total production of gold from January to September was 12,158 troy ounces.

The production of coal showed an increase. During July to September, the output was 107,806 tons, an increase of 10,358 tons as compared with the figure for the second quarter. The total production for the nine months of this year was 314,605 tons.

Iron-ore produced during the third quarter totalled 160,044 tons, which was 41,012 tons more than that produced in the second quarter. Only 51 tons were produced during the third quarter of last year. The total production for the nine months of this year was 345,238 tons.

The production of other minerals for the third quarter was—scheelite 2 tons, ilmenite 6,580 tons, china clay 382 tons.

Indochina's Rubber Production

Rubber Production

Production of rubber in the first 8 months of 1950 totaled 26,500 metric tons, as compared with 22,900 metric tons in the first 8 months of 1949. Exports in the same periods were 33,400 and 25,000 tons, respectively. Stocks diminished from 13,500 metric tons at the end of August 1949 to 6,300 at the end of August 1950. Latest figures indicate that 51,380 hectares of rubber plantations are now being exploited, a small gain over the 49,900 hectares being exploited in August 1949 but substantially below the 138,950 hectares in 1945. Prices of No. 1 sheets rose from 7.90 piasters per kilogram f. o. b. Saigon to 24.50 piasters. Despite the price incentive, the insecurity of the plantations, which had now spread to those in Cambodia, and the shortage of labour, aggravated by the refusal of North Viet Nam to provide additional coolies under present contract terms, are likely to prevent any sizable increase in rubber production.

FINANCIAL REPORTS

HONGKONG CLEARINGS

In November the total amount passed through the Hongkong bankers' clearing house was $ 1,543,739,850. For the first 11 months of this year the total reached $ 12,836,862,543. The monthly average for the first 9 months of this year was $ 1,077,331,548, and in October clearings amounted to $ 1,597,138,755. Monthly averages for 1947, 1948 and 1949 were respectively (in millions of HK$):— 549.5; 688.9; and 917.1.

HONGKONG BANKNOTES

In October the amount of banknotes in circulation totaled $ 804,696,294 of which the Hongkong & Shanghal Banking Corp. accounted for $755,876,770, the Chartered Bank for $ 44,121,534 and the Mercantile Bank for $ 4,697,990. During this year the banknote circulation has remained stable; the Jan./June monthly average was $ 802.0 million, in July $ 801.0 m. and in September $ 803.2 m. circulated.

OUTLOOK FOR COMMERCIAL WARFARE

In tht US there are many doubts expressed about the success of united action by the democracies in the war which is now shaping up; how far Britain will fall in line with American policy is a matter which is anxiously discussed. The New York financial expert, Guenter Reimann, sums up the present situation by reminding us that he, together with a number of 'pessimists', warned at the beginning of the war in Korea that this was the start of a new world war. Later warnings that MacArthur's victories would not be the end of a localized war but that China would join the war and that return to peace was most unlikely were considered "alarmist" by some financial circles. Some of them mistook the determination of Western European political and financial circles to stay out of the next world war and try a policy of "neutrality" as a guarantee that peace would be preserved. Practical personal decisions must now be made on the basis of a realistic estimate of the world political scene as well as of domestic policies. It is probable that the war in Korea will spread—but it still is doubtful whether it will become a European war in the immediate future. It is possible that open war between the U.S.A. and Russia can be avoided for some time. But undeclared war will exist in several "Koreas," and it will also result in world-wide commercial warfare.

The U.S.A. will be supported by many governments, but Western Europe and most members of the sterling bloc will try to move into a position of "neutrality" even if they continue to support resolutions of the United Nations.

Great financial movements on a world-wide scale will affect the position of the world's currencies under such conditions: The "flight from the dollar" will be accelerated. Large amounts of flight capital will move to apparently neutral centers. British sterling will not be considered a sufficiently secure currency. Yet Britain may be able to strengthen her commercial and financial position temporarily. The U.S.A. will drastically curtail civilian production while Britain and other European countries will continue civilian production without drastic restrictions. The U.S.A. will greatly increase imports of strategic materials, especially from Canada and Latin America where large dollar investments will be made. These countries will receive cash payments, i.e. dollars that may be turned into gold or that will be used in order to finance imports. But Britain and Western Europe will be the sole supplier of civilian goods and will thus earn a great deal of the dollars or the gold with which the U.S. must finance imports of strategic materials.

Thus a weakening of the international dollar position and a temporary strengthening of the international sterling position is possible. There may be a final stage where all countries will be thrown into a whirlpool of war actions. But we have to concern ourselves with the next stage of partial warfare, with large "neutral areas" and continuous world trade and international finance—in some areas subject to drastic blockade and war economic measures, while other countries greatly strengthen their financial position.

HONGKONG FREE EXCHANGE & GOLD MARKET

Review for the week December 11—16:—

GOLD:—Highest & lowest rates per .945 fine tael $313¾—302½, equiv. to .99 fine tael and oz rates of $328.69—315.85 and $273.15—262.48 resp. Crosses US$44 high, 42½ low (in New York sellers offer at 39—39½). Macao and Canton .99 fine tael prices $322¾—312½ and $320—310 resp.

Highest & lowest prices for gold (.945 fine tael) and TT New York (100):—

	Gold		US$	
December	high	low	high	low
11	$306¼	302½	627½	615
12	305½	301½	625½	620½
13	304¼	302	624	623
14	305½	303¾	624	623
15	308¾	304½	623½	618½
16	313¾	307¼	621½	615

Change over interest for the week 62 cts. (=10% p.a.). Forward contracts 204,600 taels (daily average 34,100). Daily positions 102,700 taels. Cash bars 49,500 taels (of which 40,930 officially listed in Exchange) with interest hedgers taking up 35,000, exporters 12,500 (shipped to India 5000, Bangkok 4000, Singapore 3500 taels), goldsmiths 2000 taels. (Export bar differences for .99 fine $14.10—14.50, for .97 fine bars $6.10—6.60, the latter without the Exchange certificate). Imports from Macao 15,500 taels, and a small lot from South China. Imports into Macao totaled over 30,000 ozs and further lots are expected to be discharged from Saigon and Bangkok flying boats during current week.

Outlook is determined by the political situation; there is a bullish undertone as continued tension is anticipated and gold hoarding expected to rise in the future.

SILVER:—Prices per .99 fine tael $5.36—5.37, per dollar coin $3.37—3.43, per twenty cents coins $2.62. Tradings: 56,000 taels. Stock is small, imports from China unlikely. The market is in the doldrums.

US$:—Highest & lowest rates per US$100 in notes HK$623—613, DD 624½—610, TT 627½—615, crossrates US$2.549—2.60 (in New York free rate 2.58—2.63). Quiet market, weak undertone. Sales US$1,480,000 (of which 880,000 in TT).

Demand for TT will decline in future due to US-China economic war being pushed. US export embargo will also reduce local demand for TT New York as far as transit cargo is concerned. Gold importers, on the other hand, are taking off the market US$1¼—1¾ million per average week. Without arbitrage transactions the local rate cannot be maintained at current level. In future local crosses should be a few percent lower than crosses in Europe and 'free' £ rate in US.

BANK NOTES:—Rates per 100 currency units, Indochina forward $11—11½, spot 10.66—11½, Siam 27¾—27.80, Indonesia 40—45. Per one unit, London $15.40—15.60, Australia 12.30—12.40, Canada 5.76—5.85, Malaya 1.76—1.77, India 1.12¾—1.15¾, Burma .86—.87, Manila 1.93—1.96, Macao 1.05—1.08, Taiwan .58. Japanese yen, per 10,000, $132—133.

CHINESE EXCHANGE & FINANCIAL MARKETS

The military success of the Chinese 'volunteers' in Korea has had its effect on the financial markets in Shanghai, Tientsin and elsewhere in the country. All previous fears of dire cosequences are slowly disappearing. Some concern lingers on as it is realised that the UN command may strike back if and when the Chinese forces drive down to Pusan. Most financial observers were timidly prognosticating, when Peking started its

HONGKONG OFFICIAL EXCHANGE RATES

In force as from December 12, 1950

	Foreign exchange per HK$		HK$ per one foreign currency unit	Foreign exchange per HK$			HK$ per one foreign currency unit
	Maximum Selling			*Minimum Buying*			
London	1/2	15/16	16.066946	1/3	1/32	T.T.	15.966736
				1/3	1/16	O.D.	15.933610
				1/3	3/32	30 days.	15.900621
				1/3	1/8	60 & 90 days.	15.867768
				1/3	5/32	120 days.	15.835052
E. & S. Africa	1/2	15/16	16.066946	Indirect Sterling 1/32 higher than London rate for the usance involved.			
				1/3	1/8	O.D. if under L/Credit	15.867768
				1/3	3/16	O.D. without L/Credit	15.802469
					1/32nd. up every 30 days.		
W. Africa & W. Indies	1/2	15/16	16.066946	1/3	5/16	O.D. if under L/Credit	15.673469
				1/3	3/8	O.D. without L/Credit	15.609756
					1/32nd. up every 30 days.		
India	82	15/16	1.2057272	83	15/16	T.T.	1.1913626
				84	3/16	O.D.	1.1878248
				84	5/16	7 & 30 days.	1.1860638
				84	7/16	60 days.	1.1843079
				84	9/16	90 days.	1.1825578
Aden	82	15/16	1.2057272	84	9/16	O.D. if under L/Credit	1.1825573
				84	11/16	O.D. without L/Credit	1.1808118
				85	3/16	30 & 60 days.	1.1738811
Burma	82	15/16	1.2057272	84	1/8	T.T.	1.1887073
				84	3/8	O.D.	1.1851852
				84	1/2	7 & 30 days.	1.1834320
				84	5/8	60 days.	1.1816839
				84	3/4	90 days.	1.1799410
Pakistan	57	1/2	1.7891304	58	3/16	T.T.	1.7185822
				58	1/4	O.D.	1.7167382
				58	3/8	30 days.	1.7130621
				58	1/2	60days.	1.7094017
Malaya	52	15/16	1,889021	53	1/2	T.T. & O.D.	1.8691589
				53	5/8	30 days.	1.8648019
				53	3/4	60 days.	1.8604651
New York	17	3/8	5.7553957	17	9/16	T.T. & O.D.	5.6939502
				17	5/8	30 days.	5.6737589
				17	11/16	60 & 90 days.	5.6537102
Canada	18	1/8	5.5172414	18	1/2	T.T. & O.D.	5.4054054
Australia	1/6	9/16	12.929293	1/6	15/16	T.T.	12.673267
				1/7		O.D.	12.631579
New Zealand	1/2	15/16	16.066946	1/3	1/4	T.T.	15.737705
				1/3	5/16	O.D.	15.673469

Sterling selling rates for delivery within two months with a cut of 1/32nd. for every further three months forward.

intervention, that 'disaster' was going to be the lot of the nation. But it so turned out that military glory has descended on the communists and now the general feeling is inclined to take an optimistic view of the future. What seemed in the beginning of the Korean war a walk-over of the North Koreans, later after the Inchon landing a sure success of the UN, has now turned into a matter of great national satisfaction for the Chinese; but for the KMT diehards, the Chinese are enjoying the victory achieved by their army in Korea. The inner-political consequences of the successful communist intervention cannot be discounted; in fact, Peking has scored a spectacular success against what appeared previously dangerous odds, and the opposition in China is getting dispirited.

On all financial markets some degree of stability has returned and black markets are feeling it considerably. One hears everywhere expressions of confidence that the People's money will also in future prove its mettle and that all attacks by speculators will be defeated. During the crisis of the last few weeks it seemed at first that the Peking government was in for some trouble—and had its campaign in Korea not been crowned with success that would probably have been the case—but with the military might of the Chinese Red Army being proved in its first combats with the UN forces, composed mainly of Americans, the public could not but take heart and repose renewed confidence not only in the legal tender of the communist government but also in the regime as such.

Official rates in China remained as before but there were some indications that Peking would appreciate the PB$ in case of further rise in prices and cost of living in the US and other 'imperialist' countries. It is pointed out by the economists of Peking that in China prices have remained stable since spring this year and that the purchasing power of the PB$ has proved unassailable—while the same cannot be said of foreign currencies.

On the Hongkong free market the official and free rates have almost reached par which indicates that the confidence of the Chinese, by & large, in their currency is strong. The official rate for TT Hongkong is PB$4750 buying, 4790 selling by the People's Bank appointed exchange banks (or HK$ 210½ buying, 208¾ selling, per PB$ one million). On the local free market the rate for PB notes went up from $197¼—204½ (per one million) and DD Canton went up from $194—201½. The note rate corresponds to PB$4889 per HK$ 1.

The People's Bank in Canton was freely selling foreign exchange at the official rate to bona fide importers; this move steadied the black market rate, brought it almost to par with the official rate, and it also caused increased imports (which was intended by the Chinese authorities). Canton is, in line with other cities in China, preparing for the worst, laying in stocks of 'essential' goods and using Hongkong as the major supply base.

Local free market sales of PB notes 320 million, of DD Canton PB$2100 million, and HK$340,000 (at rates $101—101.20 per 100 in Canton). Local rates for gold and US$ remittances with Shanghai 103—104½ and 95½—96, and with Taiwan 77—79½ and 88½—91 respectively.

The black market in Canton was quiet; some gold dealings were reported and there was demand for HK notes. In Shanghai black markets were subdued and little business was conducted. Rates remained high for US notes (as supply is difficult to arrange) and gold is still hoarded in large lots. Prices for US$ from PB$49,000—49,500, for HK note 5300—5450, for oz gold 2.1—2.22 million—crosses of US$44—45 (some $1—3 higher than Hongkong). The premium over official rate for US and HK notes amounts to 60% and 12—15% respectively.

Hongkong Stock Exchange

The Market was quiet and totally inactive last week. The Sun Co., Ltd. announced a dividend of 30 cents per share free of tax 1949.

Business reported during the week $1,149,171.

Sales of shares during last week:—

H.K. Govt. 4% Loan	$134,000
H.K. Bank	168
Union Insurance	520
Asia Navigation	7,000
H.K. Docks	400
C. Providents	1,550
Shanghai Docks	2,500
H.K. & S. Hotels	6,300
H.K. Lands	500
Shanghai Lands	1,000
H.K. Tramways	3,100
China Lights (O)	3,200
do (N)	3,500
H.K. Electrics	3,020
Macao Electrics (Bonus)	400
Telephones (O)	700
do (N)	200
Cements	2,700
Dairy Farms (O)	1,400
do (N)	1,300
Watson	2,450
China Entertainment	1,700
Ewo Cotton	4,500

Following are last week's closing prices of shares listed at the Exchange (most prices are nominal).

H.K. GOVT. LOANS

4% Loan	99
3½% Loan (1934 & 1940)	96
3½% Loan (1949)	98½

BANKS

H.K. & S. Bank	1325
„ (Lon. Reg.)	£82½
Chartered Bank	£9-5/16
Mercantile Bk. A. & B.	£22¾
Bank of East Asia	110

INSURANCE

Canton	265
Union	650
China Underwriters	3¼
H.K. Fire	145

SHIPPING

Douglases	150
H.K. & M. Steamboats	13
Indo Chinas (Pref)	12
„ (Def.)	35
Shells (Bearer)	67/6
U. Waterboats	20
East Asia Navigation	.67½

DOCKS, WHARVES, GODOWNS, ETC.

H.K. & K. Wharves	90
North Point Wharves	5½
Sh. Hongkew Wharves	5.60
H.K. Docks	12½
China Providents	10¾
S'hai Dockyards	3.15
Wheelocks	22

MINING

Raub Mines	4.70
H.K. Mines	.01½

LANDS, HOTELS, BLDGS.

H. & S. Hotels	6.80
H.K. Lands	41
S'hai Lands	1.10
Humphreys	3¾
H.K. Realties	1.90
Chinese Estates	119

PUBLIC UTILITIES

H.K. Tramways	12
Peak Trams (Old)	22
„ (New)	11
Star Ferries	80
China Lights (Old)	12¼
„ (New)	8¼
H.K. Electrics	26¼
Macao Electrics	10
„ (New)	9¼
„ Bonus Sh.	8½
Sandakan Lights	8¼
Telephones (Old)	10¼
„ (New)	9½
Shanghai Gas	1½

INDUSTRIALS

Cald. Macg. (Ord.)	22½
Canton Ices	3½
Cements	13½
H.K. Ropes	14¼

STORES &c.

Dairy Farms (Old)	13¼
„ (New)	11½
Watsons	21¼
L. Crawfords	24½
Sinceres	3.10
China Emporium	8½
Sun Co., Ltd.	1.60
Kwong Sang Hong	98
Wing On (H.K.)	43
Wm. Powell, Ltd.	8

MISCELLANEOUS

China Entertainments	14
H.K. Constructions (O)	2½
„ (N)	1.30
Vibro Pilings	10
Marsman, Investments	9/-
Marsman, (H.K.)	.75
Shanghai Loan	.70
Shanghai Explor	.20
Yangtszes	2.20

COTTONS

Ewos	2.80

Rubber Plantation companies' shares as listed at the local Exchange quote mostly nominal only as in spite of high natural rubber prices in Singapore, London and New York little interest is displayed here by investors. Tradings in rubber shares have been neglected ever since they were listed here (1948). Some business is concluded among private holders and does not reach the Exchange but prices of private deals are in accordance with the nominal quotations as found below (buyers' and sellers' ideas usually differ widely, often by 30%).

Indications of prices of locally quoted rubber plantation shares:—

Alma Estates	12
Anglo-Dutch	.50
Anglo-Javas	.50
Batu Anams	.50
Bute Plantations	2.80
Chemor United	.50
Cheng Rubbers	.60
Consolidated Rubbers	2
Dominion Rubbers	1.40
Java-Consolidateds	.20
Kota Bahroe	1.30
Kroewoek Javas	.40
Langkats	.35
Padang Rubbers	.45
Repah Rubbers	.25
Rubber Trusts	3.10
Samagaga Rubbers	.50
Semambu Rubbers	.50
Shanghai Kedahs	7
Shanghai-Malays	10
Shanghai Pahang	1
Shanghai Sumatras	1.40
Sua Manggis	.10
Sungei Duris	26
Tanah Merahs	1
Tebong Rubbers	.30
Ziangbe Rubbers	.65

COMMERCIAL REPORTS

Pepper of Malaya and Sarawak

The significance of Singapore in the pepper trade lies in its importance as a world market center. Sarawak far overshadows Singapore Island and the Malay Peninsula in pepper production.

Rehabilitation of Sarawak pepper gardens, practically annihilated during the war, has been stimulated by high prices, and new vines are now beginning to bear.

No definite production figures are available for 1949, but a total of 285,000-300,000 pounds will probably be produced in 1950. Of this total, about 266,666 pounds will be turned out in Sarawak and most of the remainder in the State of Johore, Federation of Malaya.

Stocks carried over from war accumulations are probably now approaching exhaustion; future supplies thus must come mostly from new vines now coming into production.

The quantity of pepper currently being handled in Singapore is probably at a minimum; the downward trend should shortly be reversed as newly planted vines start to bear. The consistently large excess of white-pepper exports over imports indicates that considerable quantities of imported black pepper are being converted to white paper by Singapore dealers, who can obtain much higher prices for the latter.

Japanese Porcelain and Earthenware

In an attempt to improve the quality of export porcelain and earthenware, a new company was established in Nagoya, Japan, on September 29, 1950, for the purpose of inspecting the export goods. The company is to be known as Nippon Yushutsu Tojiki Kensa K.K. (Japan Inspection Co. of Export Porcelain and Pottery).

Standards for Japanese Exports

Previously established standards for certain export commodities are now consolidated with many new export goods. It is expected that specific grade standards will be established in the near future for many other commodities, including such important export items as optical goods, automobile tires and tubes and a large variety of other rubber goods, celluloid products, bicycles and parts, automotive equipment, and agricultural implements.

The standards for export goods are established in accordance with the Law Concerning Control of Export Commodities enacted in late 1948. This law, as revised is 1949, provides for labeling of merchandies for which minimum standards have been established by the appropriate Japanese Government Ministries. It requires that the label indicate that the minimum standard for the particular commodity has been met, the name of the exporter or manufacturer responsible for making the determination, and the date. Further implementation of this law was provided in November 1949 by the Foreign Exchange and Trade Control Law which provides that exporters must declare in the export declaration form (which is required for clearance of all exports from Japan) that the export covered therein conforms with the grade-labeling, inspection, and other applicable laws and regulations of Japan.

There is nothing in either law, however, which provides for compulsory inspection, except in the case of raw silk, and only a small portion of the commodities exported from Japan are "spot inspected" by Government inspection agencies.

Building Industry Penang

Building in the Penang area of north-western Malaya is affected by uncertain deliveries and the rapidly mounting price of steel products. Penang draws its steel principally from the United Kingdom, Western Europe, and Australia and deliveries from all three are now uncertain. Local prices, in consequence of this situation, have mounted rapidly. Steel which averages S$220 (Straits dollars) per long ton in early September was being sold at S$440 by mid-October; and nails, by this comparison, now cost S$300 per 1-picul (133-1/3 pounds) keg against S$170. In consequence, completion of several large local building projects is threatened with delay, and the situation is discouraging the planning of future construction.

Pharmaceutical Monopoly in China

A state-owned company, the China Pharmaceutical Co., has been founded in Tientsin to unify the buying, selling, and production of drugs and medicines throughout China and to promote the development of pharmacy in that country, according to the foreign press.

Nux-Vomica Production in Indochina

Nux vomica is collected in Indochina, in Cochinchina, southern Annam, southern Laos, and Cambodia. Most of the gathering is centered in Cambodia, particularly in the south central areas of Kompongspeu and Kampot. Harvesting takes place in July and August.

Dealers estimate that 1,000-1,500 metric tons of seed could be collected annually if prices were satisfactory and gathering was organized.

Official production estimates by the Forestry Service are, in metric tons: 1945, 240; 1946, 760; 1947, 675; 1948, 475; 1949, 650.

Nux-vomica exports in kilograms in the period 1947-49 were: 1947, 627,000, 1948, 427,000 and 1949, 589,890.

HONGKONG COMMODITY MARKETS

The market was strongly affected last week by the world political situation. The shadow of extended controls hung over it, being regarded as an inevitable sequence to the delicate position in Korea and the declaration of a state of emergency by the President of the United States. Some dealers, anxious to make what they could in view of the approaching settlements at the New Year, unloaded their stocks; those who could do so, hung on to their goods anticipating a further rise in price with expected shortages. And through all ran an undertone of fear as to what will happen if stricter controls are enforced.

Raw Cotton

Although local importers have started ordering raw cotton from Pakistan, after being reconciled to the increased export tax, orders so far have been few, merchants having in view the approach of New Year settlements bringing tighter money conditions. Offers of Pakistan cotton showed an increase, N/T-roller gin being quoted at Rs. 1690 per candy c.i.f. Hongkong, 4F-roller gin at Rs. 1660, 289F-roller gin at Rs. 1720, and LSS-roller gin at Rs. 1680. Egyptian and Turkish cotton also showed an increase, the former being offered at 70 pence per lb. c.i.f. Hongkong and the latter at 64½d. per lb. c.i.f. Around 4000 candies of raw cotton has been ordered from these two countries. Rangoon cotton at Rs. 830 per bale c.i.f. Hongkong created little interest; a few transactions took place on the local market at $2.70 per lb.

Local price offers at the close had risen slightly, in spite of little business doing: Pakistan 48/49 raw cotton NT-roller gin stood at $3.70 per lb., LSS-roller gin was offered at $3.75. and 4F-roller gin at $3.65 per lb. Cotton waste stood at $1.20 per lb.

Cotton Yarn

With a slight improvement in the early part of the week, cotton yarn on the whole was dull with falling prices, being overshadowed by thoughts of New Year settlements. Transactions were light. The following prices were obtained at the close: Indian yarns, Mysore Spinning Mfg. Co. 20's $1640 per bale, Flying Peacock 20's $1560, Coimbatore Mills 32's $1750, Rajalakshmi Mills 40's $1640; local yarns, Golden Peak, Double Swallow and Flying Fish 20's fetched $1900/$1910 per bale. Some sales of Shanghai Blue Phoenix yarn 40's were effected at $2635 per bale.

Cotton Piece Goods

As a contrast to the two preceding items, trading in cotton piece goods was brisk with Indonesian and Philippine traders in the market. Dealers from China, however, held back, on account of tight money. With reduced stocks as a result of continued buying, prices rose, until they passed the peak of a month ago. Japanese 2023 grey sheeting sold at $68.50 compared with $65.50 at the commencement, Nominal quotations were higher at the close, though business slackened, Mammoth Bird and 2024 (Japanese) Grey sheeting being offered at $69 per piece, while Hsun Liang Yu (Lady on Horse) white cloth was quoted at $66.50 per piece.

Metals

Uncertainties arising out of the embargoes imposed by the USA and Japan on the export of strategic materials to China continued to overshadow last week's trading in metals. The Chinese communists were anxious to obtain all they could in the way of such materials, and prices spurred by demands and stimulated by uncertainty over the procuring of future supplies, soared upward. Scarcity of spot holdings, however, limited proceedings, and buyers hesitated to pay the high rates quoted. Record prices were established for galvanized iron sheets, galvd. iron wire, wire nails, tinplate and blackplate.

Traders from Canton with large amounts of foreign exchange available were taking all they could get of galvd. iron sheets and galvd. iron wire, which soared to record prices: galvd. iron sheets G31 3'x7' were transacted at $12.50 per sheet, G24 sold at 95 cents per lb., while G26 was quoted at $1/1.05 per lb. and G28 at $1.10 per lb. Galvd. iron wire G14 sold at $94 per picul and G16 was quoted at $100 per picul after selling at $97; G12 advanced from $82 to $88 per picul and selling offers for other specifications also advanced.

Most items in the tinplate and blackplate market showed a rise, with local factories in the market as well as buyers from China: US tinplate waste 18"x24" electrolytic in 200-lb. case sold at $210 per case, a rise of $25, following which selling offers were raised to $220. The coked product in 200-lb. case was quoted at $230/$240 per case. US misprint tinplate sold at $120, after which the selling price was raised to $125. US blackplate G29 to G33, first quality, rose to $100 per picul with purchases by local enamelware factories. British tinplate 20"x28" in 200-lb. case was quoted at $230 per case, but had no sales in view of the cheaper price of US tinplate waste waste.

Scrap copper was greatly in demand, especially used bullet shells which rose from $245 to $270 per picul for the large size and sold at $235 for the small size. Indian dealers took copper scrap, first quality, at $190 per picul as against the earlier price of $170, while second quality was quoted at $175 per picul. Old brass scrap was quoted at $200 per picul, and brass scrap cuttings at $250.

Mild steel bars were taken in large quantities by dealers from China. Angle bars rose in all specifications, 1" thick 2½" 30' increasing from $53 to $58.50 and $59 per picul; 3/16" thick 1½" and 1¾" as well as ¼" thick 2" were quoted at $60 per picul, but stocks were low. Round bars also rose, but transactions were few: 40' ⅝" to 1" were offered at $56 per picul. Flat bars and square bars saw some sales at $53 and $54 per picul.

Paper

A shortage of wood pulp in Japan has affected deliveries of paper to Hongkong, as has the prohibition imposed by the Japanese authorities upon the export of light quality paper; heavy quality paper may only be exported after a thorough scrutiny of the application. The paper market in general was steady, except for Dutch strawboard which was much in demand by Indonesian traders on account of favourable import tariff rates into Indonesian and Dutch possessions. No. 8 25" 33" sold for $880 per ton compared with $800 for the Japanese No. 8. A shipment of M.G. White Cap for delivery in Hongkong having been requisitioned by the Japanese authorities, caused a rise in price on the local market, 17½ lbs. 25"x44" being sold at $15.50 per ream and subsequently rising to $16.20. and even $17.

Newsprint in ream was in demand by dealers from China and the Japan-quality 48 lbs. 30½x42½" sold at $32.50 per ream. With arrivals from England, however, dealings fell off, as buyers refused to pay the high prices asked.

Rubber

The local rubber market was in general quiet during the week. Some cargo was received, but this was mainly for transhipment and did not affect prices, Closing rates in Hongkong showed a fall: No. 1 $440 per picul, No. 2 $430 and No. 3 $420 per picul.

Cement

The cement market showed some activity in Green Island Emeralcrete rapid hardening cement in 112-lb. bag, which sold at $7.90 per bag (official price $7.25), and in Emerald brand (green Island) 112-lb. bag which fetched $7.40 ($6.80). Indochina Dragon brand was offered at the increased price of $115 per ton ex-godown and Bate brand Danish white cement was offered at $245 per ton c.i.f. On the other hand, Japanese cement in 100-lb. bags sold for the lower price of $5.50 per bag spot.

Industrial Chemicals

A result of the U.S. embargo on exports of industrial chemicals stimulated the local market into activity, especially in U.S. products. U.S. caustic soda in 700-lb. drum which previously had shown a downward trend, recovered and from $205 per drum climbed rapidly until it reached $250 per drum, while I.C.I. "Crescent" 300 kilo. packing was quoted at $260 per drum. U.S. borax gran. in 100-lb. packing showed the same rapid rise; starting at $22.50 per bag or $21 for large quantities, it rose to $28 per bag at the close, while ICI borax gran. in 50-kilo. gunny bag was quoted at $37 per bag. ICI borax crystals 1-cwt. packing rose from $42 to $52 per bag. Calcium hypochloride 75% (USA) in 130-lb. drum touched a new record with sales at $4.60 per lb. Japanese calcium hypochloride followed suit, the 60% 50-kilo packing rising to $2.25 for forward and $2.55 per spot and the 70% variety being quoted at $3.30 per lb. Quebracho extract being short of spot holdings rose in price to $1.25 forward, the previous quotation being 95 cents per lb. Japanese ammonia chloride in 50-kilo packing sold at the higher rate of $1650 per ton. US chlorate of potash climbed from 89 cents per drum of 160 lbs. to $1.16 at the close.

Local merchants have recently been placing orders for fertilizers with European suppliers and a shipment from the United Kingdom of ICI Black Moon sulphate of ammonia 100-kilo. packing is expected at the end of next month. Japanese Swallow brand sold at the increased price of $600 per ton, Golden Coin brand fetched $620 per 100-kilo bag, and Belgian OPT brand in 100-kilo gunny bag rose to $580 per ton.

China Produce

Following a cessation in buying by the United States, tungoil (woodoil) showed a price decline, until the announcement by the Chinese authorities of the imposition of an export tax of 10% sent it up to $195 per picul at which price forward deliveries were effected. Interest was shown in teaseed oil, which showed a rise to $188 per picul. Cassia oil was brisk and sales were effected at $2250 per picul with two-weeks forward at $2140. Aniseed oil was transacted at $1030 per picul at the close.

A shortage of spot goods led to a rise in the price of cassia lignea, the 1-cwt. bale and 80-lb. bale being quoted at $64 per picul. Cassia scraped sold at $124 per picul. Gallnuts were transacted at $102 per picul. Aniseed star sold at $128 per picul, Nanning product. Except for teaseed oil, groundnuts and cassia lignea which showed smaller quantities received during the week, arrivals of most China products increased:

Tung oil	9,785 drums & 210 tons
Aniseed oil	18 drums
Cassia oil	12 drums
Teaseed oil	50 drums
Groundnut oil	471 drums
Casings	83 drums
Beans	5,784 bags
Medicinal herbs	1,932 pieces
Cowhides	59 pieces
Raw silk	264 pieces
Groundnuts	2,000 bags
Gallnuts	320 bags & 240 tons
Rosin	964 cases
Sesame seeds	140 bags & 130 tons
Tea	2,203 pieces
Duck feathers	197 pieces
Cassia lignea	2,491 pieces
Straw mats	2,556 pieces
Groundnuts	2,506 bags
Hog bristles	210 cases
Aniseed star	20 pieces
Ramie	107 pieces

Hongkong Industrial Report

Applications for registration of factories and workshops amounted to 39 in November; 9 being on the Island and 30 in Kowloon and the New Territories; 24 registration certificates were cancelled (11 in HK, 13 in K. & N.T.); 12 applications were refused (3 and 9), including 8 premises for which no formal application for registration was made; 41 registration certificates were issued (16 and 25).

In the accompanying list are given details of factories and workshops with numbers of male and female labour registered in November:

		M.	F.	Total
1	Sugar Refinery ..	300	38	333
1	Tobacco	44	140	184
6	Knitting	60	108	168
1	Electric Bulbs ...	28	75	103
1	Furniture	90	7	97
2	Weaving (Cotton)	22	46	68
2	Metal Wares	55	10	65
2	Garments & Shirts	46	5	51
1	Tooth Brushes ...	18	30	48
2	Bakelite Wares ..	31	14	45
4	Printing	36	—	36
2	Engineering	31	—	31
1	Dyeing	26	—	26
1	Plastic Wares	12	7	19
2	Rice Mills	18	—	18
1	Electro Plating ..	16	2	18
1	Noodles	17	—	17
1	Laundry	12	2	14
1	Peanut Oil	13	—	13
1	Tin Cans	10	2	12
1	Packing (Cargo)	8	3	11
1	Distillery	11	—	11
1	Lubricating Oil ..	6	—	6
1	Saw Mill	4	—	4
38		914	489	1,403

Factories that had their names changed in November numbered 2. One factory changed its trade in November from manganese and graphite to grinding. Factories closed down in November, which numbered 17, included 3 Printing, 2 Engineering, 2 Garment, and 1 each Plastics, Knitting, Sugar, Noodles, Rubber, Soap, Saw Mill, Neonlights, Brush, Cash Register.

For the eleven months January-November 1950, a total of 452 applications had been received (150 HK and 302 K. & N.T.), 155 registration certificates had been cancelled (59 and 96), 72 applications had been refused (27 and 45) of which 43 were for premises for which no formal application for registration was made, and 394 registration certificates were issued (127 and 267).

Factories registered and recorded with the Department of Labour as at the end of November were as follows:

	HK.	K'ln & N.T.	Total
Factories & workshops registered .	352	878	1,230
Applications under consideration ...	143	170	313
	495	1,048	1,543

There were 57 cases of injuries and industrial accidents involving 62 persons reported in November, of which 4 were fatal; 46 of these took place in registered factories and workshops, 2 being fatal. Of these cases, 13 were due to machinery, all being in registered factories, 1 was transport (registered factory),. 9 were explosions or fire (1 in registered factory), 4 from poisonous, hot or corrosive substances (3 in reg. factories) 1 being fatal; 17 from falls of persons (13), 2 fatal (both in regist. factories); I from stepping on or striking against objects (1); 9 from falling objects (7); 1 fatal from falling rock and earth; 1 from hand tools (in regist. factory); 6 from miscellaneous causes (all in regist. factories).

HONGKONG INDUSTRIAL PRODUCTS EXHIBITION

The annual exhibition of local Chinese manufacturers, sponsored by the Chinese Manufacturers Union of Hongkong, opened on December 15 and will be open until January 4. It comprises, as usual, the leading products manufactured here and shows continually progress in almost every section. The variety of products made and the improvement of the quality of old articles of local factories are gradually increasing.

At the opening of the Exhibition the Chairman of the Manufacturers Union stated inter alia:—

It is over five years since Hongkong first tackled the tremendous task of rehabilitation made necessary by the wastage of the war years and the destruction wrought during the Japanese occupation of the Colony. During these five years many factories have been able to replace old and worn out machinery with new and up-do-date plants and the considerable industrial progress made has been backed up by the employment of more trained workers. A considerable impetus has been given to Hongkong's production. Modernisation of plant and improved standards of work have resulted in considerable improvement of quality, while production costs have recently shown signs of substantially decreasing.

The many foreign exhibitions in which members of the Union have participated and the many trade delegations sent abroad have given opportunities of introducing local products into a large number of new overseas markets. It is a fact of considerable significance that Hongkong's trade with the United Kingdom has, this year, increased greatly in volume. Hongkong manufactured shirts have created a sensation in London due to their generally excellent quality and highly competitive price.

Local manufacturers take pride in the success with which many products have been able to compete with the products of occupied Japan, in spite of the fact that Japan's keen prices are known to be a formidable factor in international trade. In time to come Hongkong's products will be as well known and as popular as any in the world.

Hongkong's industry is not content to sit still and review past successes; continuous research in order to produce new products of practicable usefulness is carried out. Staple fibre can now be produced in the Colony and products made with this material are already on the market. In other lines, notably enamelled ware, cotton and woollen textiles, aluminium ware, plastic goods, torch cases, paint and oil, vacuum flasks and printing, marked progress has been made.

Much of the progress made has been possible through the assistance given by the banking houses in the Colony, particularly the Hongkong asd Shanghai Banking Corporation, whose confidence in local industries has done much to enable them to recover.

There is a great need for large numbers of skilled workers and it is the manufacturers' ambition to establish a technical school for training workers so that they may have their share of knowledge to contribute to industry. If possible, a start with the school in 1951 will be made.

The Governor of Hongkong stated inter alia :—

Conditions have, in certain respects, improved but times are still difficult, and we in Honkong must very largely rely for our raw materials on distant places, whilst as regards markets we also have to look to the outside world because, the Hongkong market alone is too small.

Despite the difficulties that beset them, Hongkong manufacturers have shown faith and courage and have continued to improve and extend their factories. They have also been willing to learn from others. During the past year, for instance, many of them have visited the United Kingdom, to see how industries there are run and how products are exhibited at the British Industries Fair. Others have been to the United States to the Chicago Fair and observed for themselves the finer points of mass production. Nearer home too they have not neglected their opportunities, and have visited neighbouring territories to study markets to which many of their products are exported.

Hongkong manufacturers are equal to the difficulties that face them. They are a progressive body and have wisely set out to help themselves. This is very sound because since Hongkong is an entrepot we cannot give protection by preferential tariff or subsidy.

The exhibition usually surprises even local residents by the large range of products displayed. We are accustomed to seeing locally made pots and pans, rubber shoes, textiles, vacuum flasks and our oldest product, ginger, but how many in Hongkong realise that other items such as heavy machinery for the manufacture of metalware and textiles is also produced here. Since the last exhibition, too, we have seen on the road the first motor vehicle produced in Hongkong since the war, powered by a locally made diesel engine.

Hongkong Shipping Report for November 1950

Ocean Steamers

	Arrivals				Departures			
Flag	*Ocean Steamers*				*Ocean Steamers*			
	No.	*Tonnage*	*Cargo*	*Passengers*	*No.*	*Tonnage*	*Cargo*	*Passengers*
British	108	280,413	105,318	2,448	108	286,071	82,541	9,727
American	20	106,895	17,177	315	22	114,871	11,193	260
Chinese	30	24,348	32,371	2	22	27,967	23,201	720
Danish	13	37,305	17,014	131	12	36,127	5,005	2,475
Dutch	9	40,549	4,365	173	10	44,606	7,799	—
French	4	38,588	1,538	58	4	28,588	1,820	60
Greek	4	818	226	—	4	739	400	57
Hendurian	—	—	—	—	1	1,863	2,000	—
Norwegian	33	82,591	50,402	299	34	82,401	29,495	2,798
Panamanian	28	43,434	40,957	8	29	41,733	28,297	2,186
Philippine	13	25,977	14,541	15	12	23,790	2,991	916
Polish	1	4,274	—	—	—	—	—	—
Portuguese	1	111	30	1	1	111	10	30
Swedish	4	11,617	7,676	9	4	11,131	1,060	—
Total Foreign	150	406,507	186,296	1,011	155	413,927	113,271	10,042
Total	258	686,920	291,614	3,459	263	699,998	195,812	19,769

River Steamers

	Arrivals				Departures			
Flag	*River Steamers*				*River Steamers*			
	No.	*Tonnage*	*Cargo*	*Passengers*	*No.*	*Tonnage*	*Cargo*	*Passengers*
British	165	156,281	3,211	58,416	160	152,081	4,463	459
Chinese	36	3,862	1,004	—	35	3,755	1,189	27
Portuguese	1	297	378	—	3	891	2	40
Total Foreign	37	4,159	1,382	—	38	4,646	1,191	67
Total	202	160,440	4,593	58,416	198	156,727	5,654	526

HONGKONG JUNKS & LAUNCHES IN NOVEMBER 1950

Foreign Trade Conducted by Junks & Launches of 60 registered tons & under

JUNKS

	No. of Vessels Inward	No. of Vessels Outward	Reg. Tonnage Inward	Reg. Tonnage Outward	Dead Weight Tonnage of Cargo Inward	Dead Weight Tonnage of Cargo Outward	No. of Passengers Inward	No. of Passengers Outward
1950 November	1,502	1,571	181,352	183,584	52,662	17,617	786	2,865
October	1,211	1,239	138,399	139,505	40,103	10,202	700	1,937
	+ 291	+ 332	+42,953	+44,079	+12,559	+ 7,415	+ 86	+ 928

LAUNCHES

	No. of Vessels Inward	No. of Vessels Outward	Reg. Tonnage Inward	Reg. Tonnage Outward	Dead Weight Tonnage of Cargo Inward	Dead Weight Tonnage of Cargo Outward	No. of Passengers Inward	No. of Passengers Outward
1950 November	333	340	6,508	6,559	294	174	—	—
October	258	272	5,757	5,976	356	350	—	—
	+ 75	+ 68	+ 751	+ 583	— 62	— 176	—	—

Total Vessels entered & cleared October	2,980	289,631	N. R. Tons.
" " " " November	3,746	378,003	
	+ 766	+ 88,366	
Total Cargo discharged & loaded October		51,011	D. W. Tons.
" " " " November		70,747	
		+ 19,736	

January-November 1950:

Total Vessels entered and cleared: 20,774 of 2,081,826 N. R. Tons.
Total Cargo discharged and loaded: 429,080 D. W. Tons.

Local Trade Conducted by Junks & Launches of 60 registered tons & under

JUNKS

	No. of Vessels Inward	No. of Vessels Outward	Reg. Tonnage Inward	Reg. Tonnage Outward	Dead Weight Tonnage of Cargo Inward	Dead Weight Tonnage of Cargo Outward	No. of Passengers Inward	No. of Passengers Outward
1950 November	1,444	1,418	59,118	57,395	26,336	19,261	—	—
October	1,381	1,414	58,759	59,401	26,221	13,498	30	—
	+ 63	+ 4	+ 359	— 2,006	+ 155	+ 5,763	— 30	—

LAUNCHES

	No. of Vessels Inward	No. of Vessels Outward	Reg. Tonnage Inward	Reg. Tonnage Outward	Dead Weight Tonnage of Cargo Inward	Dead Weight Tonnage of Cargo Outward	No. of Passengers Inward	No. of Passengers Outward
1950 November	363	367	9,166	9,214	144	325	23,782	25,462
October	437	441	12,049	12,112	236	304	22,949	27,432
	— 74	— 74	— 2,883	— 2,898	— 92	+ 21	— 167	— 2,020

Total Vessels entered & cleared October	3,673	142,321	N. R. Tons.
" " " " November	3,592	134,893	
	— 81	— 7,428	
Total Cargo discharged & loaded October		40,259	D. W. Tons.
" " " " November		46,066	
		+ 5,807	

January-November 1950:

Total Vessels entered and cleared: 31,962 of 1,142,603 N. R. Tons.
Total Cargo discharged and loaded: 227,569 D. W. Tons.

HONGKONG COMMERCIAL CARGO

For January-November 1950

1950	Ocean Vessels Discharged	Ocean Vessels Loaded	River Vessels Discharged	River Vessels Loaded
January	443,678	145,863	8,783	14,652
February	282,001	123,112	6,912	9,175
March	331,242	216,248	7,754	14,155
April	342,507	176,001	9,876	7,037
May	361,934	179,246	12,867	10,666
June	281,884	159,449	8,285	5,539
July	282,035	191,705	8,854	7,328
August	252,428	208,477	8,462	8,480
September	304,794	196,637	7,534	10,589
October	297,544	207,506	7,049	7,939
November	291,614	195,812	4,593	5,654
January/November	3,471,661	2,000,056	90,969	101,204

Total ocean cargo discharged and loaded January/November 1950: 5,471,717 tons; total river cargo: 192,173 tons; grand total: 5,663,890 tons.

Monthly averages for 1948 and 1949 (in tons):

	1947	1948	1949
Ocean cargo in	187,552	193,416	272,418
" " out	71,047	87,849	128,034
River cargo in	7,483	9,042	8,291
" " out	7,369	7,456	10,404

Highest and lowest cargo figures for 1949 and 1948 (in tons):

	1949	1948
Highest discharged	377,034 in Dec.	241,574 in March
" loaded	158,697 in Sept.	122,684 in Dec.
Lowest discharged	179,805 in Feb.	138,922 in Nov.
" loaded	76,461 in Feb.	57,988 in Oct.

Hongkong Shipping Statistics for 1947, 1948, 1949, January/September 1950 and October 1950

Following are Hongkong shipping statistics for ships entering and clearing the Port during the years 1947—1949 and first nine months of 1950 as well as October 1950.

(1) Ocean and river steamers of over 60 tons net, by nationality of the steamers

Flag	Monthly Average, 1947				Monthly Average, 1948				Monthly Average, 1949				Monthly Average, January-September, 1950				October, 1950			
	Entered		Cleared		Entered		Cleared		Entered		Cleared		Entered		Cleared		Entered		Cleared	
	No.	Tons	No.	Tons	No.	Tons	No.	Tons	No.	Tons	No.	Tons	No.	Tons	No.	Tons	No.	Tons	No.	Tons
British	210.7	312,231	210.2	313,809	269.5	343,050	269.2	340,494	259	382,386	258	376,407	317	457,625	318	459,639	364	479,138	364	474,739
American	26.2	143,118	26.0	142,939	26.7	134,896	26.2	133,906	31	157,584	30	164,044	28	146,925	29	147,316	28	139,689	27	136,095
Chinese	103.2	56,465	103.0	57,201	168.2	84,587	167.8	83,339	257	164,195	247	153,133	125	82,331	126	81,109	55	26,331	58	30,610
Danish	4.8	19,908	4.9	20,160	8.4	30,778	8.3	29.748	11	40,391	11	40,914	14	46,607	15	48,273	15	48,467	13	43,792
Dutch	10.5	52,079	10.5	52,607	14.8	74,069	14.8	73,224	16	72,747	16	72,056	10	47,368	9	47,569	12	55,411	11	48,408
French	1.4	6,725	1.7	6,791	2.2	7,319	2.2	7,338	3	12,238	3	12,576	3	17,646	3	17,646	3	18,083	3	18,083
Norwegian	16.8	34,565	16.5	34,849	23.5	54,766	23.4	54,434	32	74,486	31	72,814	35	82,921	35	84,294	39	98,036	37	95,661
Panamanian	7.5	17,454	6.8	15,938	6.2	19,370	6.4	19,462	13	36,838	14	37,819	31	64,749	33	68,623	23	48,237	28	55,970
Philippine	4.5	9,095	4.2	8,906	3.9	3,607	3.8	3,576	6	12,388	6	12,451	9	15,138	9	14,590	7	9,508	6	6,530
Portuguese	1.3	838	1.3	838	5.9	11,829	5.9	11,840	12	4,676	11	4,208	5	2,091	4	2,584	5	1.044	5	858
Swedish	3.4	9,813	3.2	9,505	1.6	4,262	1.6	3,811	7	16,931	7	17,097	6	17,063	6	17,073	7	20,125	7	19,462
U. S. S. R.	1.3	4,817	1.3	4,894	3.5	9,661	3.6	9,714	4	4,567	3	4,940	2	3,795	2	3,386	—	—	2	3,680
Others	.04	880	.05	937	1.1	4,222	.9	3,846	2	8,406	3	8,277	3	9,658	3	9,880	6	12,802	6	12,572
Total	391.64	667,988	389.65	669,424	535.5	782,146	543.1	774,732	653	987,833	648	976,736	588	993,917	592	1,001,972	564	956,871	567	946,460

(2) Passengers Arriving & Departing By shipping. (ocean & river over 60 tons net)

Flag	MONTHLY AVERAGE, 1947						MONTHLY AVERAGE, 1948					
	Passengers Arriving By			Passengers Departing By			Passengers Arriving By			Passengers Departing By		
	River Steamers	Ocean Steamers	Total	River Steamers	Ocean Steamers	Total	River Steamers	Ocean Steamers	Total	River Steamers	Ocean Steamers	Total
British	21,086	12,465	33,551	25,064	9,010	34,071	27,876	10,915	38,791	31,614	8,117	39,731
American	—	3,141	3,141	—	2,072	2,072	—	1,277	1,277	—	1,502	1,502
Chinese	2,546	3,193	5,739	821	2,733	3,554	9,646	2,543	12,189	8,149	1,958	10,107
Danish	—	259	259	—	217	217	—	996	996	—	944	944
Dutch	—	6,078	6,078	—	5,146	5,146	—	4,832	4,832	—	4,229	4,229
French	—	360	360	—	283	283	—	298	298	—	228	228
Norwegian	—	1,358	1,358	—	1,839	1,839	—	2,608	2,608	—	2,429	2,429
Panamanian	—	24	24	—	18	18	—	5	5	—	17	17
Philippine	—	139	139	—	102	102	—	55	55	—	48	48
Portuguese	—	22	22	—	17	17	7	17	24	7	21	28
Swedish	—	10	10	—	9	9	—	11	11	—	11	11
U. S. S. R.	—	1	1	—	1	1	—	5	5	—	1	1
Others	—	210	210	—	1	1	—	20	20	—	44	44
Total	23,632	27,260	50,892	25,885	21,448	47,333	37,529	23,582	61,112	39,770	19,548	59,318

Flag	MONTHLY AVERAGE, 1949						MONTHLY AVERAGE, JANUARY-SEPTEMBER, 1950					
	Passengers Arriving By			Passengers Departing By			Passengers Arriving By			Passengers Departing By		
	River Steamers	Ocean Steamers	Total	River Steamers	Ocean Steamers	Total	River Steamers	Ocean Steamers	Total	River Steamers	Ocean Steamers	Total
British	29,063	10,162	39,225	33,468	6,793	40,261	49,574	3,279	52,853	52,688	5,307	57,995
American	—	1,389	1,389	—	2,022	2,022	—	255	255	—	636	636
Chinese	17,738	3,036	20,774	19,125	2,521	21,646	14,530	7	14,537	12,453	10	12,463
Danish	—	565	565	—	376	376	—	234	234	—	67	67
Dutch	—	3,372	3,372	—	3,073	3,073	—	458	458	—	1,802	1,802
French	—	208	208	—	192	192	—	51	51	—	121	121
Norwegian	—	3,053	3,053	—	2,619	2,619	—	704	704	—	2,645	2,645
Panamanian	—	63	63	—	32	32	—	77	77	—	61	61
Philippine	—	58	58	—	33	33	—	320	320	—	255	255
Portuguese	27	26	53	27	26	53	2	6	8	1	—	1
Swedish	—	18	18	—	18	18	—	6	6	—	12	—
U. S. S. R.	—	1	1	—	25	25	—	—	—	—	—	—
Others	—	1	1	—	8	8	—	—	—	—	1	1
Total	46,830	21,961	68,791	52,620	17,738	70,358	64,106	5,397	69,503	65,142	10,917	76,059